BEAR STEARNS

Equity Research

Broadcast Television

Seizing Control of Their Destiny

- **The Mandate.** We think future success in the local TV broadcast business will increasingly depend on 1) distribution strength; 2) the ability to deliver desirable audiences; 3) geographic and affiliation diversity; 4) a dual-media presence; and 5) a flexible capital structure (to be able to aggressively participate in the continuing industry consolidation).

- **Opportunity Knocks.** Near term, we expect TV advertising spending to accelerate, as corporate America cues off of the "new millennium" theme to promote goods and services. Longer term, the move into digital spectrum (e.g., HDTV) could open up good growth opportunities for savvy broadcasters.

- **Consolidation Unleashes Value.** We think the best investments in this group can be found among either the aggressive consolidators or the companies that opt to sell into today's very robust acquisition bidding environment. Those that don't take either route could underperform.

- **Our Top Stock Picks.** We remain staunch supporters of A.H. Belo (Buy), Granite Broadcasting (Buy), Hearst-Argyle (Attractive), Sinclair Broadcast Group (Buy), USA Networks (Buy), and Young Broadcasting (Buy).

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Seizing Control of Their Destiny

Given the harsher competitive and economic realities facing the over-the-air broadcast television industry today, we believe that future success in this business will likely depend on how effectively each operator can seize control of its own destiny — a mandate that will entail achieving maximum leverage with such key constituents as viewers, advertisers, vendors (i.e., research and national representation firms), competitors, broadcast networks, and cable operators (over the medium and longer term). Accomplishing these goals will require scale and knowing how to use market clout to participate more fully in the positive trends we see unfolding in the industry over the next few years. Accordingly, we think the best investments in this group can be found among either the aggressive consolidators or the companies that opt to sell into today's very competitive bidding environment. The broadcasters that do not follow either path will likely languish.

In our view, the following attributes (we call them "control factors") will separate the winners from the losers in the television broadcast industry over the next decade.

- **Distribution.** Broadcasters with significant "reach" in terms of television households have the best access to quality programming; greater influence with the increasingly powerful broadcast networks; and a better chance of controlling programming, advertising representation, and research costs.

- **Delivery.** We think advertisers will increasingly steer toward the broadcasters that can consistently deliver audiences — whether in terms of sheer mass and/or desirable demographics — as targeted markets grow more fragmented.

- **Diversity.** We believe it is important for operators to maintain diversity in their 1) network affiliations, 2) sources of cash flow, and 3) geographic concentration.

- **Dual-Media Presence.** In our view, broadcasters with cross-media ownership — e.g., TV/radio (through one-to-a-market waivers), TV/newspapers (via grandfathered relationships), TV/cable networks, TV/outdoor, and TV/TV (through local marketing agreements) — should enjoy advantages over competitors in the marketplace. If the government dismantles duopoly (in television) or general cross-ownership rules, we think that another round of consolidation could ensue.

- **Debt Capacity/Financial Flexibility.** Companies with 1) substantial debt capacity or 2) the ability to access capital quickly will be able to participate in the consolidation of the television business more forcefully, in our opinion.

OPPORTUNITY KNOCKS

Although the competitive environment promises to become more hostile, we think the next few years could be a particularly healthy period for the broadcast television business, especially for the operators that have learned how to leverage their size and market dominance to their maximum strategic advantage.

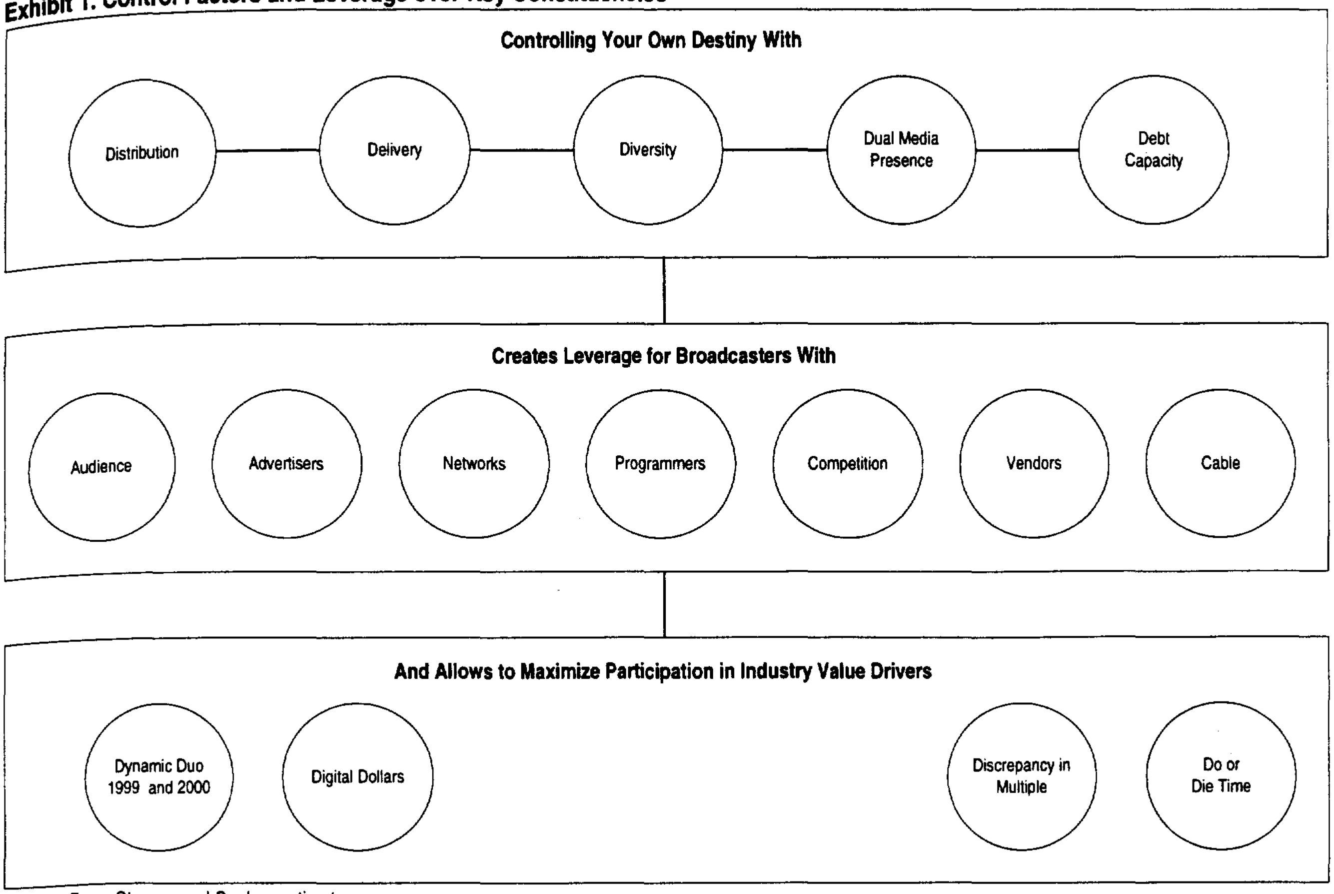
- **Dynamic Period for Advertising.** We expect stronger-than-normal growth in advertising spending in 1999 and 2000 as corporate America cues off of the end of the century/new millennium theme to promote goods and services. Judging from the 20%-plus surge in television advertising spending during the bicentennial celebrations in 1976, we argue that once-in-a-lifetime events such as the passage into the new millennium can translate into major advertising opportunities. Specifically, we estimate that TV advertising spending in 1999 could exceed that of the typical nonpolitical, non-Olympic "hammock" year (up an average 5%-6%) and could accelerate to 10%-12% or more in 2000, a year that will feature both the Olympic Games and major elections.

- **Digital Dollars.** Operators that are able to forge a viable business model for the move into digital spectrum could turn a perceived cash drain (i.e., requiring significant capital expenditures) into a value driver. The broadcaster's size and relative market strength will likely determine the business model it chooses and the probability of that model's success. Capital spending on digital could begin affecting broadcasters' free cash flow over the next few years. We expect the industry to begin to explore new digital business models in late 1998 and 1999, including such concepts as datacasting, multicasting, and broadcasting in high definition. Although the potential for value creation in this emerging area is still unknown, we believe that growth opportunities exist as long as there are more constituents interested in developing the broadcasters' digital signal (e.g., consumer electronics, computer, chip, direct broadcast satellite, multiple system operators, and venture capitalist companies) than spectrum available.

- **Discrepancy in Valuations.** We believe that the discrepancy between the multiples accorded the television broadcasting stocks and those of the radio stocks — as well as between the public and private valuations of the television companies — are excessively wide. As the business dynamics in television broadcasting continue to improve, we think this gap can narrow significantly.

- **Do or Die Time.** Hostile or unsolicited takeovers have long been anathema to the broadcast business. However, as there are now many more known acquirers than available properties in the marketplace, we wonder if the days of negotiated mergers and acquisitions are coming to an end and if deal-making will turn more antagonistic in the years ahead.

Exhibit 1. Control Factors and Leverage over Key Constituencies



Source: Bear, Stearns and Co. Inc. estimates.

How Our TV Broadcasters Measure Up

In the exhibit below, we summarize how each of the companies under our research coverage stacks up relative to the various traits we think are critical for survival in the broadcast television business going into the next decade (we explain these control factors in full detail later in this report). In our opinion, the greater the strengths a broadcaster possesses in any or all of these key attributes, the better the chance that it can outperform the industry and lead the ongoing consolidation.

Exhibit 2. Selected Television Broadcasters — Comparison of Operating Characteristics

		A.H. Belo Corporation BLC	Granite Broadcasting GBTVK	Hearst Argyle Television HATV	Sinclair Broadcast SBGI	USA Networks, Inc. USAI	Young Broadcasting YBTVA
Distribution	Number of Stations Owned and Operated	17	10	12	37	13	12
	Reach of Stations - FCC Perspective	13.4%	4.2%	8.6%	13.5%	15.5%	9.1%
	Reach Rank - FCC Perspective	12	26	17	10	9	16
	Reach of Stations - Syndicator Perspective	14.2%	7.0%	8.9%	22.4%	31.0%	9.2%
	Reach Rank - Syndicator Perspective	14	23	19	10	5	18
	Stations - LMAs, JSAs or Minority Interests	4	0	3	20	5	0
	Household Reach of Stations - LMAs, JSAs or Minority Inve	2.5%	0.0%	2.9%	12.0%	9.9%	0.0%
	Reach - Syndicator Perspective - Owned and Operated anc	16.7%	7.0%	11.8%	32.6%	40.9%	9.2%
Delivery	Average Viewing Households (Thousands) - Owned Statior	910	228	544	616	NA	365
	Average Viewing Households Rank	7	24	12	8	NA	19
	Average Viewing Households (Thousands) - Including LMA	925	228	584	750	NA	364
	Average Viewing Households Rank	7	24	11	8	NA	18
	Estimated Average Viewership Share (Owned and Operate	17.5%	9.0%	16.5%	7.5%	NA	10.8%
Diversity - Affiliations Household Reach (%)	ABC	30.4%	15.7%	73.7%	18.6%	0.0%	30.5%
	CBS	34.9%	12.1%	0.0%	5.1%	0.0%	10.4%
	NBC	28.1%	12.9%	26.3%	3.3%	0.0%	3.4%
	Fox	6.6%	0.0%	0.0%	45.4%	0.3%	0.0%
	UPN	0.0%	0.0%	0.0%	1.0%	0.0%	0.0%
	WB	0.0%	59.3%	0.0%	15.0%	0.0%	0.0%
	Independent	0.0%	0.0%	0.0%	11.6%	97.7%	55.7%
Diversity - Cash Flow	Cash Flow Contribution of Largest Station - Estimated	25.0%	20.0%	25.0%	6.0%	NA	35.0%
	Cash Flow from Radio	0.0%	0.0%	1.0%	13.0%	0.0%	0.0%
	Cash Flow from LMAs/Managed Properties	0.0%	0.0%	1.5%	15.0%	0.0%	0.0%
	Cash Flow from Newspapers	47.5%	0.0%	0.0%	0.0%	0.0%	0.0%
Diversity - Geographic	Northeast	0.0%	14.7%	53.0%	18.6%	38.1%	5.7%
	South	52.6%	6.5%	12.8%	33.9%	29.9%	21.1%
	Midwest	8.0%	35.1%	27.5%	40.4%	15.5%	17.5%
	West	39.4%	43.7%	6.8%	7.2%	16.5%	55.7%
Dual Media Presence	Number of Radio Properties	0	1	2	52	0	0
	Radio Gross Revenue ($ Millions)	$0	$1	$25	$139	$0	$0
	Radio Revenue Rank	0	NA	32	11	0	0
	Markets with Radio-TV Cross-Ownership	0	1	1	7	0	0
	Markets with Newspaper-TV Cross-Ownership	Dallas	None	None	None	None	None
	Markets with Cable-TV Cross-Ownership	Northwest: Seattle, Spokane, Boise, Portland; Texas: Dallas, Houston, San Antonio					
	Markets with TV-TV Cross-Ownership	4	0	3	20	5	0

Source: Nielsen Media Worldwide; BIA Investing in Television '97; *Broadcasting & Cable*; company documents; Bear, Stearns & Co. Inc.

Our Valuation Methodology

In order to determine target prices for our broadcast television stocks, we have used a private market value (PMV) analysis, which we believe provides the most valid assessment of value for the companies in this rapidly consolidating industry. Our work is predicated on the assumptions listed below.

- **Discounted Cash Flow Analysis.** We use a discounted cash flow (DCF) analysis to determine the private market values for each company. This valuation methodology offers many advantages, including: 1) it is the gauge most commonly used by acquirors and financial advisors to determine asset values; 2) it offers the most accurate way to assess each company's growth potential and unique operating risks (i.e., its stock's beta); and 3) it allows us to translate absolute dollar values into BCF and earnings before interest, taxes, depreciation, and amortization (EBITDA) multiples, which is important for comparative purposes (within the group and relative to other stocks in related industries).

- **"Target" Capital Structure Mix.** Our analysis is predicated on a merger and acquisition (M&A) model that uses the same industry target capital structures for all companies. For valuation purposes, our numbers assume that each company's net debt equals 5.5x EBITDA. We believe that this ratio provides a good balance between the industry's current leverage (which has risen recently as a result of aggressive acquisition activity) and debt levels acceptable to potential acquirors.

- **Assigning Differing Betas.** In determining each company's cost of equity, we have used a weighted average cost of capital, adjusted for the beta assigned to each company's stock (to reflect operating risks). In determining the proper beta for each broadcaster, we considered how each measured up according to the criteria outlined earlier in this report: 1) distribution; 2) the ability to deliver audiences and desirable demographics; 3) diversification (relative to geographic coverage, network affiliation, and cash flow sources); 4) dual-media presence; and 5) financial flexibility. The factors we considered and the beta we assigned to each company is summarized in Exhibit 3 below.

- **Assigning Differing Terminal Growth Rates.** In determining each company's implied terminal value, we used differing terminal free cash flow growth rates for each company to reflect 1) the five criteria outlined above and 2) the relative population and economic growth rates of a company's markets. Faster-growth markets warrant higher terminal growth rates and higher implied terminal values. The factors we considered and the beta we assigned to each company is summarized in Exhibit 3 below.

We took the steps described below to arrive at our 12-month price targets (i.e., public market values) for each stock.

- We projected three years of unlevered free cash flow growth for each company, and then applied a weighted average cost of capital to that number in order to reflect its long-term cash flow growth potential and unique operating risks.

- We then determined private market value for each company and calculated a private market multiple based on our projections of the company's 1999 broadcast cash flow.

- Next, we subtracted net debt, exchangeable preferred stock, and preferred stock and determined the private market valuation of each company's equity.

- Finally, we applied a 20% discount to each company's PMV to estimate public market value. This discount is lower than the average 30%-35% discount typically assigned to media and entertainment stocks when employing this methodology. We've chosen the 20% discount rate because of the high relative tax basis that broadcasters enjoy as a result of the significant levels of intangibles (which have longer tax lives) in their asset bases. Theoretically, this means that if and when assets are sold, the after-tax proceeds would be higher than they would be for companies that write off assets over much shorter periods.

Exhibit 3 summarizes each company's beta, weighted average cost of capital, terminal growth rate, implied terminal multiple, private market multiple based on our BCF growth projections, and estimated private market value. It also shows our 12-month target multiples and target prices for each stock.

Exhibit 3. Valuation Parameters for Select Public Companies

	A.H. Belo Corporation	Granite Broadcasting	Hearst Argyle Television	Sinclair Broadcast Group	Young Broadcasting
Beta	1.10	1.20	1.10	1.05	1.15
Weighted Average Cost of Capital	11.00%	11.54%	11.00%	10.75%	11.28%
Terminal Growth Rate	6.00%	5.50%	6.00%	6.00%	5.25%
Distribution Factors	3rd largest non-network affiliated group (+)	Two top ten markets (+) Smallest Pure-Play TV Operator (-)	Largest pure-play TV broadcaster - Audience (+)	Most TV Properties (57) in Industry (+)	Largest pure-play TV broadcaster - Reach (+)
Delivery Factors	Highest average station ratings in U.S. (+)	Betting on Growing WB Network (+) Small average ratings (-)	Strong Big Market News Stations (+) Strong Average Ratings (+)	Good Demographics - Large Fox/WB Owner (+) 875,000 Households Viewing During Day (+)	Very Strong Small Market Stations (+) L.A. - Owns Rights to Sports (+)
Diversity Factors	Best network diversity (+) Very reliant on Dallas Market (-) Commodity Risk - Newsprint (-)	Solid balance between ABC, WB, CBS, NBC (+) Detroit/San Francisco Stations Immature (-)	Reliant on ABC Network (-)	More Reliant on Fox, WB (+,-) 37 Owned Markets (+) 20 LMA Markets (+) Largest Property is 6% of Cash Flow (+)	L.A. Contributes 38% of Cash Flow (-) Reliant on ABC Network (-)
Dual Media Presence Factors	TV and newspaper in Dallas (+) TV and cable network in Texas, Northwest (+) LMAs in 4 markets (+)	Not Meaningful (-)	Not Meaningful (-)	Most LMAs in Industry - 20 (+,-) 12th Largest Radio Operator TV and Radio in 7 Markets (+)	Not Meaningful (-)
Markets Factors	Strong local competition (+) Attractive Faster Growth Markets (+)	Large Markets - Large Ad Dollars (+) Large Markets - Slower Growth (-) "Core Markets" - Non-WB - Slower Growth (-)	Large Markets - Large Ad Dollars (+) Large Markets - Slower Growth (-)	Middle Markets - Less Competition (+)	L.A. Highly Competitive (-) L.A. TV Ad Spending Erratic (-)
<u>Private Market and Public Market Multiples</u>					
Private Market Multiple of 1999E BCF	12.40	11.50	14.00	14.75	12.50
Target Market Multiple of 1999E BCF	10.20	10.75	11.50	12.50	10.50
Current 1999E BCF Trading Multiple	8.70	9.80	10.70	11.50	9.60

Source: Company reports; Bear, Stearns & Co. Inc. estimates.

Exhibit 4. Stock Valuation Summary

		A.H. Belo Corporation	Granite Broadcasting	Hearst Argyle Television	Sinclair Broadcast Group	USA Networks	Young Broadcasting
Ticker		BLC	GBTVK	HATV	SBGI	USAI	YBTVA
Shares	Fully Diluted Shares Outstanding (Treasury Method)	63.9	18.4	54.8	48.4	339.2	15.0
	Float (May 21, 1998)	50.2	9.0	10.4	24.0	74.4	12.0
	Float - $	$2,663.7	$99.0	$357.5	$1,254.0	$1,692.6	$582.0
Current Price - May 21, 1998		$53.06	$11.00	$34.38	$52.25	$22.75	$48.50
Capitalization	Equity - At Market	$3,390.7	$202.4	$1,883.7	$2,529.5	$7,716.8	$729.7
	Preferred Stock-Exchangeable	$0.0	$190.0	$0.0	$172.5	$0.0	$0.0
	High Yield Trust Offered Preferred Securities	$0.0	$0.0	$0.0	$200.0	$0.0	$0.0
	Year-End Net Debt - 1998	$1,520.1	$412.5	$418.0	$2,326.4	$784.6	$608.3
	Capitalization	$4,910.8	$804.9	$2,301.7	$5,228.4	$8,501.4	$1,338.0
Free Cash Flow (FCF)	1998E	$112.0	$8.6	$80.8	$10.5	($14.5)	$46.2
	1999E	$152.6	($2.8)	$90.3	$128.0	$87.9	$59.6
FCF Per Share	1998E	$1.77	$0.47	$1.50	$0.23	($0.04)	$3.27
	1999E	$2.41	($0.15)	$1.68	$2.68	$0.26	$4.23
Growth in FCF per Share	1998E	-28.0%	193.8%	NA	-87.2%	NA	43.4%
	1999E	36.2%	-131.9%	12.0%	1065.2%	NA	29.4%
FCF Multiple	1998E	30.0x	23.4x	22.9x	227.2x	NA	14.8x
	1999E	22.0x	(73.3x)	20.5x	19.5x	NA	11.5x
Broadcast Cash Flow (BCF) ($ Millions)	1997 - Pro Forma	$450.8	$67.2	$175.7	$401.0	$460.8	$118.2
	1997 - Reported	$413.9	$69.8	$92.7	$243.4	$199.5	$118.2
	1998E - Pro Forma	$511.0	$73.5	$195.0	$425.0	$518.3	$130.3
	1998E - Reported	$511.0	$76.2	$194.6	$356.8	NA	$130.3
	1999E	$549.3	$82.2	$215.8	$456.2	$623.6	$138.7
Growth in BCF	1998E - Pro Forma	13.4%	9.4%	11.0%	6.0%	12.5%	10.2%
	1999E	7.5%	11.8%	10.7%	7.3%	20.3%	6.4%
BCF Multiples	1997 - Pro Forma	10.6x	12.0x	13.1x	13.0x	NA	11.3x
	1998E - Pro Forma	9.4x	11.0x	11.8x	12.3x	11.2x	10.3x
	1999E	8.7x	9.8x	10.7x	11.5x	9.3x	9.6x
Target Price - 1999	1999 Estimated BCF	$549.3	$82.2	$215.8	$456.2	$623.6	$138.7
	Adjustments for "Stick" Valuations	$3.5	$0.0	$0.0	$0.0	($41.0)	$0.0
	BCF of Cash Flow Generating Assets	$552.8	$82.2	$215.8	$456.2	$582.6	$138.7
	Target Multiple-BCF	10.2	10.8	11.5	12.5	14.5	10.5
	-EBITDA	10.9	11.8	12.2	13.0	14.9	11.1
	Value of Cash Flow Generating Assets	$5,660.7	$883.7	$2,481.7	$5,702.5	$8,447.7	$1,456.4
	Plus: Cable Networks/Local Channels	$19.2	$0.0	$0.0	$0.0	$850.0	$0.0
	Plus: Cable Assets	$21.0	$0.0	$0.0	$0.0	$0.0	$0.0
	Plus: Value of Stock Held	$13.5	$0.0	$0.0	$0.0	$0.0	$0.0
	Plus: Stick Value of TV Properties	$49.0	$0.0	$0.0	$0.0	$1,500.0	$0.0
	Plus: Value of Programming Owned	$15.0	$0.0	$0.0	$0.0	$0.0	$0.0
	Plus: International Home Shopping Ventures	$0.0	$0.0	$0.0	$0.0	$200.0	$0.0
	Plus: Internet Businesses	$0.0	$0.0	$0.0	$0.0	$100.0	$0.0
	Plus: International Programming Ventures	$0.0	$0.0	$0.0	$0.0	$45.0	$0.0
	Total Enterprise Value	$5,778.4	$883.7	$2,481.7	$5,702.5	$11,142.7	$1,456.4
	Less: Net Debt - 1999	($1,367.5)	($415.2)	($327.7)	($2,198.4)	($696.8)	($549.7)
	Less: HYTOPS	$0.0	$0.0	$0.0	($200.0)	$0.0	$0.0
	Less: Exchangeable Preferred Stock	$0.0	($190.0)	$0.0	($172.5)	$0.0	$0.0
	Value to Equity	$4,410.9	$278.5	$2,154.0	$3,131.6	$10,445.9	$906.7
	Fully Diluted Shares - Treasury Method	63.9	18.4	54.8	48.4	339.2	15.0
	Target Price - 1999	$69.03	$15.14	$39.31	$64.69	$30.80	$60.26
	Current Price - May 21, 1998	$53.06	$11.00	$34.38	$52.25	$22.75	$48.50
	Upside	30.1%	37.6%	14.4%	23.8%	35.4%	24.3%
	Rank	Buy	Buy	Attractive	Buy	Buy	Buy

Source: Bear, Stearns and Co. Inc. estimates.

A.H. Belo Corp. (BLC-53 1/16) — *Buy*

We remain very bullish on A.H. Belo shares, as we believe the company's diversified portfolio of newspaper and broadcast assets and the quality of these properties should pave the way for above-average broadcast cash flow (BCF) growth over the next few years. We are impressed with the caliber of the company's management, which has clearly articulated its goals and has acted decisively to attain them. BCF could climb 13.4% in 1998, followed by a 7.5% pickup in 1999. Despite these prospects, the stock sells at one of the lowest BCF multiples in the group based on our 1998 and 1999 estimates. We attribute this disparity to the stock's general lack of visibility within the investment community, as well as to the company's newspaper assets, which tend to command lower valuations relative to television.

Based on an enterprise value of $4.9 billion (incorporating 63.9 million fully diluted shares, using the treasury method, and projected year-end 1998 debt of $1.5 billion), we estimate that BLC shares are trading at a blended multiple of 9.5x for the TV properties and the newspaper assets. In our view, the company's hidden assets, which include the value of the local marketing agreements (LMAs), Belo Production (which owns "Beakman's World," a show in syndication), stock in Peapod, NorthWest Cable News, and a 7% stake in Falcon Cable, LP, approaches approximately $118 million (nearly $2 per share). If we assign the television properties a multiple of 11.0x 1999 operating cash flow (OCF) and the newspaper assets a multiple of 9.5x 1999 OCF, then add in the value of the hidden assets, we arrive at a year-end 1999 target price of $69 for the stock. We believe that these target multiples more appropriately reflect the company's excellent investment merits, the quality of its portfolio of assets, and its above-average growth prospects.

Granite Broadcasting (GBTVK-11) — *Buy*

We raised our rating on Granite Broadcasting to Buy from Attractive on January 13, 1998, at an opening price of $10 3/8. Our ongoing enthusiasm stems from the company's new strategic direction over the past year, which has placed an increased emphasis on the purchase of stations affiliated with the emerging WB network in large metropolitan markets, as exemplified by the 1997 acquisitions of WDWB in Detroit and KOFY in San Francisco. Moreover, with the recent sale of television properties in Grand Rapids and Lansing, Michigan (which it did to help finance the recent acquisitions), the company has improved its financial flexibility, which we consider key to any broadcaster's ability to play the positive trends unfolding in the broadcast TV business over the next few years. We believe that Granite can register average pro forma BCF growth of 9.4% in 1998 and 11.8% in 1999.

We think that these positive factors more than offset concerns we have about the company's excessive leverage, the untested nature of its new strategic charter, and the possibility that it may not be able to obtain a waiver from the FCC to own TV properties in San Francisco and Monterey/Salinas/San Jose, which would diminish the favorable economics of the San Francisco station.

By our calculations, the market is currently valuing Granite's core stations at 8.9x the company's projected 1998 BCF estimate, which we consider unduly low given their growth potential. Applying a multiple of 10.75x to our 1999 BCF estimate of $82.2 million and adjust for debt and exchangeable preferred stock, we arrive at a 12-month target price of $15 per share for GBTVK. The stock is also selling at a fraction of its private market value, which we peg at $20 or more.

Hearst-Argyle Television (HATV-34 3/8) — *Attractive*

The August 1997 merger of Hearst Corp.'s and Argyle Television's station groups created the largest publicly traded pure-play television broadcaster in the U.S., which now covers 10.9% of TV households through its owned and managed properties. In our view, the combined company, now called Hearst-Argyle, has the critical mass, geographic diversity, and attractive market mix necessary to become a dominant player in TV broadcasting and to deliver above-average BCF growth for the next several years. Hearst-Argyle continues to overindex the ABC network in its markets, primarily driven by strong local news programming. The ratings and revenue growth at the company's three largest properties (Boston, Baltimore, and Kansas City) continue to compare favorably with the industry averages, despite recent disappointments at the ABC network (Boston and Kansas City are ABC affiliates). We also expect the new company to be an aggressive consolidator in the broadcast television industry as it capitalizes on its low leverage and lower cost of capital (aided by the financial and marketing prowess of the Hearst Corporation).

Assuming an enterprise value of $2.3 billion, HATV shares are trading at 11.8x our pro forma broadcast cash flow estimates for 1998. Given Hearst-Argyle's significant size, attractive markets, acquisition capacity, and top-flight management, we believe the stock should maintain a multiple above those of the company's peers. We derived our target by applying an 11.5x multiple against projected year-end 1999 BCF of $215.8 million ($2.48 billion) and subtracted projected year-end 1999 debt of nearly $327.7 million. This valued the 54.8 million shares at $39 per share, which is 14.4% higher than the May 21, 1998, closing price. In the long-term, we also expect this stock should do well as the company aggressively bids to consolidate the television business.

Sinclair Broadcasting Group (SBGI-52 1/4) — *Buy*

Sinclair Broadcast Group best exemplifies the kind of broadcaster we believe can dominate and flourish in the broadcast television business of the future — even as the competitive climate turns more hostile. The company has been crystal clear about its long-term strategic plan: Be in as many markets as possible, own radio and television stations in the same market if possible, and try to have programming purchase power and sell advertising for two television stations in as many markets as possible. As Sinclair continues to successfully execute its strategy, we believe that the company's growth prospects are as strong as ever. No other single broadcast television operator owns more television properties (57). Moreover, Sinclair is the largest non-network-affiliated group owner in terms of TV household reach (23% of U.S. television households), and nearly 750,000 TV households on average are watching the broadcaster's owned and managed television stations throughout the day. The company operates radio and television properties in seven markets, and also runs more television properties through local marketing agreements than any other broadcaster. Sinclair is the 12th largest radio company in the country. The diversification of its cash flow sources by property and geographic market is remarkable; no property accounts for more than 6% of cash flow. Finally, we expect Sinclair to remain one of the most acquisitive television groups in the country. Longer term, we look for the company to be a leader in developing and creating viable economic models for digital television.

Based on a total capitalization of roughly $5.2 billion (equity value of $2.5 billion, debt of $2.5 billion, and about $170,000 in preferred stock), SBGI shares are currently trading at a multiple of 12.3x our 1998 BCF estimate of $425 million and 11.5x our 1999 BCF projection of $456 million (both pro forma) — or at a slight premium to the valuations accorded the company's peers. Given Sinclair's superior positioning within the industry and its strong asset balance, we think this premium valuation is justified. Hence, based on a multiple of 12.5x our 1999 BCF estimate, our 12-month price target for the stock is $65.

USA Networks, Inc. (USAI-22 3/4) — *Buy*

In our view, investors buying USA Networks's shares today will be participating in the emergence of a media powerhouse that boasts one of the finest managements and the most powerful portfolio of assets in the media business. The chief principals involved in the continuing formation of USA Networks include such industry heavyweights as Barry Diller, CEO of the company; Edgar Bronfman, Jr., CEO of Seagram; John Malone, CEO of TCI; and Paul Allen, cofounder of Microsoft. Depending on the ultimate size of the stake owned by Liberty, these companies and/or individuals could own approximately 70%-75% of the total shares outstanding of the new company. We expect these executives to combine their managerial talents, experience, assets, ideas, and contacts to create an extremely valuable franchise. We look for the benefits of the integration of USA's assets to kick in strongly in 1999, when cash flow growth could exceed 20% (before corporate overhead and losses at the emerging USA Broadcasting). Reflecting the company's far superior BCF growth potential relative to its peers, we think a BCF multiple of 14.5x is appropriate. This implies a 12-month price target of $31 for the stock (based on our 1999 BCF projection).

Young Broadcasting, Inc. (YBTVA-48 1/2) — *Buy*

We continue to recommend purchase of Young Broadcasting based on the continuing signs of momentum at its KCAL-TV station, an independent television property in Los Angeles acquired in November 1996. Although the turnaround at KCAL has been erratic, recent results suggest that the station is headed in the right direction. As the Los Angeles advertising market continues to revive, the station's revenue pacings and ratings trends have strengthened considerably. We continue to look for free cash flow of nearly $3.30 per share this year, which we expect should be used to pay down debt. BCF growth could come in at nearly 10% in 1998, followed by an anticipated 6.4% gain in 1999. Although the stock has had a nice run-up in recent months, it continues to trade at one of the lowest BCF multiples in the group. Given Young's small share base, high leverage, and low stock valuation, even modest expansion in its multiple would translate into robust upside in the stock.

Factoring in Young's fully diluted share base of 15.0 million and year-end 1998 net debt approaching $608.3 million (both pro forma), enterprise value approximates $1.3 billion. On this basis, the stock is trading at 10.3x our BCF estimate of $130 million for 1998 and at 9.6x our BCF projection of $138.7 million for 1999. Assuming year-end 1999 net debt approaching $549.7 million and an EV/BCF multiple of 10.5x, we believe the stock could trade at $60 within the next 12 months. Our target multiple, which is on the low end of our valuation range for comparable companies, reflects the higher inherent risk at the Los Angeles property and the slower growth expected from Young's more mature properties.

As the World Turns

The operating environment for over-the-air broadcasters has grown more hostile from almost every angle. Competition for local viewership is fierce, broadcast networks have grown much more powerful relative to the local broadcast companies, and radio is battling more aggressively for local and national advertising dollars. Washington has imposed regulations on ratings, created mandatory requirements on children's programming, established requirements that TV-set manufacturers install V-chips in their products to block programming with certain ratings, and threatened to rewrite rules on political and liquor advertising. Meanwhile, television broadcasters face the prospect of having to make significant investments in digital television. To illustrate just how dramatically the world has changed for the industry, we compared the operating environment of the television broadcasters with that of the radio broadcasters, as shown in Exhibit 5.

Exhibit 5. Summary Operating Environment for Terrestrial TV and Radio Broadcasters

Operating Environment Characteristic		Television	Radio
Competition	-New Networks	Fox (1986), WB (1991), UPN (1991) PaxNet (August 1998)	AMFM (Chancellor)
	-New Local Competition	Affiliates of Fox, WB, UPN, PaxNet, Univision, Telemundo, USA Broadcasting, Value Vision	Local radio groups
	-Video/Audio Competition	Cable Networks (50+ Viable Networks)	CD Radio (1999), American Mobile Satellite radio (2000)
Power of Networks		Progressively more powerful relative to broadcast affiliates	Owned, controlled, or managed by largest radio broadcasters
Advertising	-New Competition	Radio	None
	-Washington Political Advertising	Big impact — 85%-plus of political advertising placed in television	Minimal impact — not much placed in radio
	-Washington Alcohol Advertising	Big impact — vast majority placed in television	Minimal impact — much placed in radio
	-Washington Advertising Deductibility	Big impact — likely to reduce advertising spending	Big impact-likely to reduce advertising spending
Content	-Ratings	Ratings system enacted in 1997	No ratings system
	-Mandatory Programming	3 Hours of children's programming per week	No mandatory programming
	-Equipment	V-Chips to block certain rated programming	None
Digital		Must spend to build out digital TV licenses within the next 1-5 years Ramp-up of cap ex	No digital build-out

Source: Bear, Stearns and Co. Inc. estimates.

However, we see plenty of evidence that the over-the-air television business is not facing imminent demise. For one thing, networks and stations continue to make large economic commitments to over-the-air television.

- The networks continue to expand their ownership of television stations. Reach for all the networks is approaching 25% or more: Fox (40.5%); CBS 31.8%; NBC (27.3%); ABC (24.2%); and Viacom (23.8%) and Chris-Craft/United/BHC (21.6%).

- The Walt Disney Co. and Viacom decided to own their own station groups in order to ensure the distribution of the programming they produce.

- CBS, Disney, and Fox collectively paid more than $1.6 billion annually for the rights to show National Football League (NFL) football games on over-the-air television properties.

- NBC paid a rumored $13 million to air each episode of "ER."

- Local broadcasters are producing more hours of, and spending more money to create, local news.

- The WB network paid Sinclair Broadcast Group $84 million to switch the affiliations of some of its UPN affiliates.

In reaction to the fractionalization of audiences, over-the-air TV broadcasters have had to reinvent themselves, as the traditional economic models that drove significant cash flow growth in the past are no longer as relevant. In 1980, literally hundreds of different television broadcasters owned television properties in the top 100 markets. This list has shrunk considerably and is likely to continue to do so, in our opinion. With increased competition and fractionalization, the industry has begun to develop new complex models that focus on one specific theme: that local broadcasters must seize control of their own destiny in order to remain viable enterprises. We believe that the new business models in this area will gradually move away from the traditional modes of making money (i.e., drawing big audiences) to "transactional" (i.e., getting bigger) and "transformational" (i.e., making money in digital) paradigms.

Telecom Act of 1996 Saves the Day

The biggest reason we do not believe that the over-the-air broadcast television industry's days are numbered is the Telecommunications Act of 1996. The Act dramatically altered the industry's course by changing the legal TV household reach limit that any one broadcaster could hold to 35% from 25% and by removing the restrictions on the number of TV properties that one broadcaster could own. Before the Act, an operator could own a maximum 12 television properties.

Exhibit 6. Summary of Major Changes of Telecom Act of 1996 for Broadcast Television

	Pre-Telecommunications Act of 1996	Post Telecommunications Act of 1996
Limitation on Number of Stations One Operator Can Own	12	0
Television Household "Reach" Limitations	25%	35%
VHF Discount	50%	50%
Review of Broadcast Rules	No Procedure	Biennial Review

Source: Telecommunications Act of 1996; Federal Communications Commission.

These changes revitalized the television broadcast business by permitting industry players to build scale, which we believe will be a critical component of future success. Moreover, the ability to consolidate has unleashed value. The broadcast networks have all added properties to their owned and operated station groups, which we believe is a significant endorsement of the desirability of over-the-air distribution. The legislation has also aligned the broadcast networks' interests with those of their affiliate groups, which we believe is important in light of the increased control that the networks now wield over their affiliates. So, despite a difficult operating environment, we believe that the industry should thrive, mostly as ongoing consolidation continues to rationalize the business and create value.

Reality No. 1: Viewership Is Fragmenting

To appreciate just how much competition has heated up in this business, one need only open the television listings section of an evening newspaper or a local TV guide. In 1980, less than 20 years ago, there were fewer broadcast and cable networks, and cable penetration was low (approximately 28% versus 65% in 1998). This translated into highly concentrated viewing levels for the Big Three networks (ABC, CBS, and NBC), which collectively grabbed a 90% share of the television audience in prime time that year. However, during that same period, we saw the launch of three new broadcast networks (Fox in 1986, and the WB and UPN networks in 1995) and the creation of more than 50 viable cable stations (meaning that they attract measurable viewerships). On the way are PaxNet, a proposed network slated for startup in August 1998, and the gradual rollout of a new local television model, USA Broadcasting (spearheaded by Barry Diller).

Exhibit 7 summarizes the competitive broadcast and cable entries with which traditional networks and their affiliate bases battle locally.

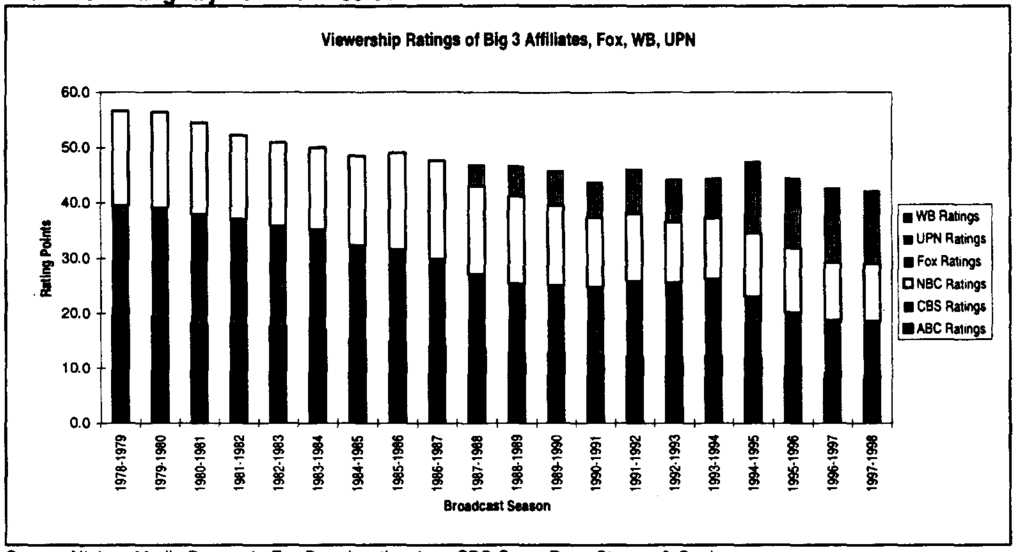
Exhibit 7. Competitive Entries in the Broadcast and Cable Networks

Year	Broadcast Network Launch	Cable Network Launch (Launch Date -12/97 Subscribers)
1972		Home Box Office (November - 20.8)
1976		Univision (September - 15.7)
		Showtime (July - 15.2)
		TBS (December - 60.4)
1977		Family Channel (April - 59.0)
		WGN (November - 35.4)
1979		C-Span (March - 71.1)
		Nickelodeon (April - 66.8)
		ESPN (September - 67.0)
		The Movie Channel (December - 15.2)
1980		Black Entertainment Television(January - 51.6)
		USA Network (April - 68.2)
		Cable News Network (June - 60.1)
		Cinemax (August - 8.9)
		The Learning Channel (November - 57.1)
		Bravo (February - 22.7)
1981		MTV (August - 64.2)
1982		Headline News (January - 55.5)
		The Weather Channel (May - 61.6)
1983		The Nashville Network (March - 69.0)
		Country Music Television (March - 39.4)
		Disney Channel (April - 25.0)
1984		Lifetime (February - 62.7)
		Arts & Entertainment (February - 64.6)
		American Movie Classics (October - 61.5)
1985		VH-1 (January - 56.1)
		Nostalgia Television (February - 9.5)
		The Discovery Channel (June - 69.4)
		Home Shopping Network (July - 52.9)
1986	Fox (October)	C-Span 2 (June - 47.7)
		QVC (November - 62.6)
1987		Telemundo (January - 17.5)
		The Travel Channel (February - 20.2)
1988		TNT (October - 66.5)
1989		Prime SportsChannel (January - 48.4)
		CNBC (April - 61.2)
1990		E! (June - 40.3)
1991		Comedy Central (April - 40.6)
		Courtroom Television Network (July - 25.6)
1992		Sci-Fi Channel (September - 34.3)
		Cartoon Network (October - 33.6)
1993		Z Music Television - (March - 18.8)
		ESPN2 (October - 44.5)
		Odyssey (October - 25.9)
		TV Food Network (November - 22.3)
		FiT TV (December - 11.8)
1994		Turner Classic Movies (April - 12.6)
		Q2 (September - 11.1)
		fX (October - 30.6)
1995	WB (January)	The Golf Channel (January - 10.3)
	UPN (January)	The History Channel (January - 29.4)
		Speedvision (December - 5.0)
1996		America's Health Network (March - 4.0)
		Nick at Nite's TV Land (April - 7.0)
		MSNBC (July - 22.0)
		Fox News Channel (October - 21.6)
1997		CBS Eye on People (March - 2.1)
1998	PaxNet (August)	
	USA Broadcasting (June)	

Source: *Cablevision Magazine*; Federal Communications Commission 1997 Annual Report; Kagan's Economics of Basic Cable Networks.

The increased competition for viewers has taken a toll on the traditional Big Three networks. From the 1980-81 to the 1997-98 (through March 8, 1998) broadcast season, Big Three network ratings (percentage of television households tuned to network programming) have dropped nearly 47%, to 28.9 from 54.6, and share of viewership has dropped to 47% from 85%, a loss of 38 share points. However, much of the loss in "big three" viewership represents a shift of audience to the new networks such as Fox, WB and UPN. Many broadcast groups are enjoying the growth prospects of these newer networks. If the ratings of Fox, WB and UPN are considered, ratings have declined by 22.9% to 42.1 in the 1997-1998 broadcast season from 54.6 in the 1979-1980 broadcast season.

Exhibit 8. Ratings by Network 1980-98



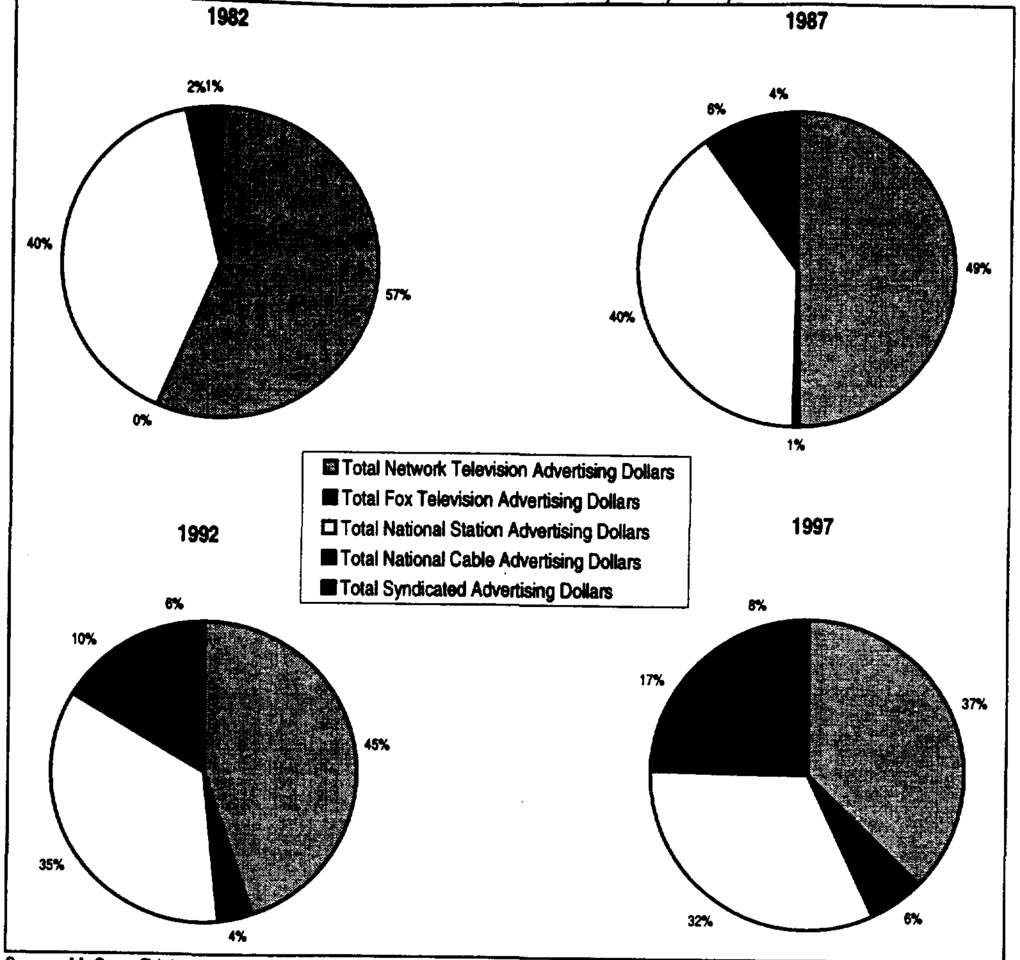
Source: Nielsen Media Research; Fox Broadcasting, Inc.; CBS Corp.; Bear, Stearns & Co. Inc.

REALITY NO. 2: NATIONAL ADVERTISING IS DECLINING AT LOCAL STATION

We believe that local television broadcasting stations will become more reliant on local advertising in the years ahead, for three reasons.

- **The Proliferation of New Networks.** As illustrated in Exhibit 9, the percentage of national advertising placed at local stations has diminished over the past 15 years (to 32% from 40%), and this trend has accelerated during the past ten years. We attribute this development to the proliferation of new broadcast and cable networks, which has created discrete caches of national TV audiences that national advertisers cannot afford to ignore. In 1980, 95% of all national advertising was placed on the Big Three stations or their affiliates. Today, these advertisers can choose from a profusion of attractive options before having to consider national "spot" advertising placed on local stations. With the development of a significant syndication market over the past 15 years, we've also seen strong growth in the use of "barter" as a means by which local broadcast stations can pay for license fees for exhibiting television programming. Through these barter systems, individual stations provide advertising units to syndicators as part of the payment for shows. Syndicators, in turn, package these advertising slots nationwide and sell them to national advertisers.

Exhibit 9. Share of National Television Ad Dollars — 1982, 1987, 1992, and 1997



Source: McCann Erickson Worldwide; Bear, Stearns & Co. Inc.

- **The Cost Differential.** In general, national spot advertising is 25%-60% more expensive than national network advertising, which has also hurt its appeal.

Exhibit 10. Cost per Thousand Index (CPM) for Spot Television Versus Other Media

Media	Placement	Ad Unit	Cost per 1000 Men	Cost per 1000 Women	Index Versus Men Early Evening (spot)	Index Versus Women Early Evening (spot)	Index Versus Men Late News (spot)	Index Versus Women Late News (spot)
Television	Early AM - Major Networks	30 seconds	$11.25	$7.10	0.92	0.73	0.55	0.44
	Daytime (Major Networks)	30 seconds	NA	$4.15	NA	0.43	NA	0.26
	Early Evening (Spot)	**30 seconds**	**$12.25**	**$9.75**	**1.00**	**1.00**	0.60	0.60
	Early News (Major Networks)	30 seconds	$11.85	$9.25	0.97	0.95	0.58	0.57
	Prime Time (Major Networks)	30 seconds	$16.70	$13.10	1.36	1.34	0.81	0.81
	Prime Time (Cable)	30 seconds	$8.75	$8.15	0.71	0.84	0.43	0.50
	Late News (Spot)	**30 seconds**	**$20.50**	**$16.25**	1.67	1.67	**1.00**	**1.00**
	Late Fringe (Major Networks)	30 seconds	$16.15	$14.20	1.32	1.46	0.79	0.87
	Sports (Major Networks)	30 seconds	$15.00	NA	1.22	NA	0.73	NA
Radio	Network	30 seconds	$4.45	$4.10	0.36	0.42	0.22	0.25
	Spot	30 seconds	$6.95	$6.05	0.57	0.62	0.34	0.37
Magazines	Business	Page - 4 color	$19.75	NA	1.61	NA	0.96	NA
	Mass Dual Audience	Page - 4 color	$6.60	$4.50	0.54	0.46	0.32	0.28
	Newsweeklies	Page - 4 color	$8.15	NA	0.67	NA	0.40	NA
	Sports	Page - 4 color	$7.10	NA	0.58	NA	0.35	NA
	Selective Men's Interest	Page - 4 color	$11.45	NA	0.93	NA	0.56	NA
	Selective Women's Interest	Page - 4 color	NA	$8.70	NA	0.89	NA	0.54
	Women's Fashion	Page - 4 color	NA	$10.50	NA	1.08	NA	0.65
	Women's Service	Page - 4 color	NA	$5.35	NA	0.55	NA	0.33
Newspapers	Dailies	1/3 Page - Black & White	$18.20	$17.85	1.49	1.83	0.89	1.10
Out of Home	Billboard	30 sheet	$3.25	$3.65	0.27	0.37	0.16	0.22

Source: TV Dimensions '97; Bear, Steams & Co. Inc. estimates.

- **Radio Is Flexing Its Muscle.** We believe that radio broadcasting may also be hindering the growth of national advertising in the television industry. It could be easily argued, in our opinion, that the radio industry was the greatest beneficiary of the Telecommunications Act of 1996, as the elimination of national ownership limits and the adoption of more liberal local ownership rules enabled radio broadcasters to significantly consolidate radio markets. This, in turn, allowed them to amass large local and national audiences that sometimes match and even exceed those of the local television broadcasters and national television networks. For example, in Chicago, the number of listeners aged 12 and over "tuning-in" to the largest radio group equals the number of TV households reached by WLS-TV, the most-watched television property in the United States.

Exhibit 11. Local Audience Comparisons — Radio Versus TV (Top Ten Markets)

Market Revenue Rank	Market	Largest Radio Share	Summer 1997 Radio Share	Persons Using Radio	Total 12+ Persons	Largest Radio Group Total 12+ Listeners (000s)	Largest Television Share	Largest Television Station 18+Viewers Within DMA (000s)
1	New York	CBS	19.7	16.9%	14,114.0	470	NBC (General Electric)	643
2	Los Angeles	CBS	20.3	16.9%	9,741.0	334	NBC (General Electric)	411
3	Chicago	CBS	25.5	16.9%	6,953.0	300	ABC (Disney)	299
4	San Francisco	Chancellor	21.3	16.9%	5,446.0	196	Chronicle Publishing	174
5	Philadelphia	CBS	21.5	16.9%	4,065.0	148	ABC (Disney)	302
6	Detroit	Chancellor	27.8	16.9%	3,679.0	173	Post-Newsweek Stations	197
7	Dallas/Ft. Worth	Chancellor	23.4	16.9%	3,622.0	143	A.H. Belo	168
8	Washington, DC	Chancellor	23.4	16.9%	3,535.0	140	Gannett/Albritton	140
9	Houston/Galveston	Chancellor	27.9	16.9%	3,393.0	160	ABC (Disney)	133
10	Boston	CBS	39.5	16.9%	3,265.0	218	Hearst-Argyle	216

Note: Radio is Summer 1997 ratings period, Television is May 1997 ratings period

Source: Radio and Records Ratings Report and Directory; BIA Publishing Audit Bureau of Circulation; Nielsen Media Research; Arbitron; Bear Stearns and Co. Inc.

In addition, the radio business has also been able to build large national cumulative audiences ("cume" is defined as the number of different listeners that sample a radio owner's stations in any given week) because the Telecommunications Act of 1996 places no restrictions on the number of radio properties that one owner can acquire nationally. Consequently, radio groups now reach extremely large cumulative national audiences.

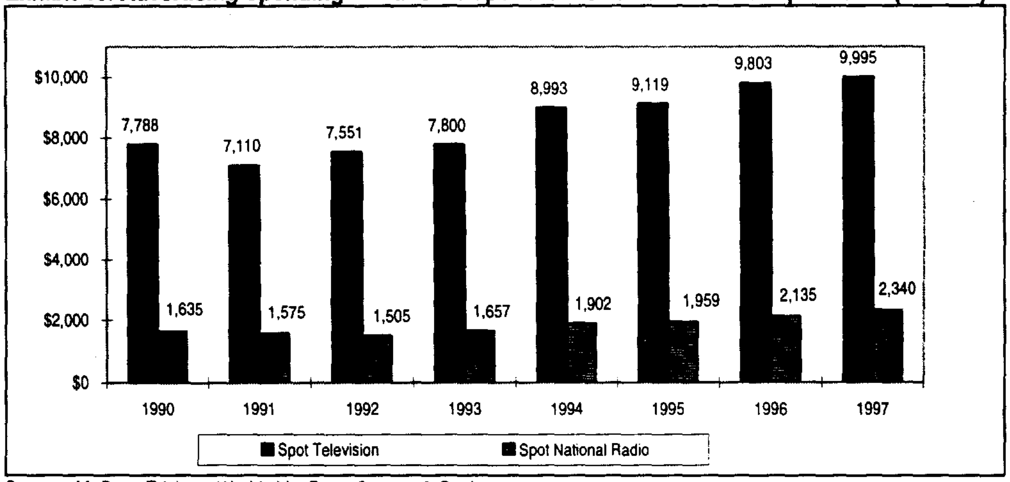
Exhibit 12. Radio — Cumulative Listenership of Top 15 Radio Groups

CUME Rank	Radio Group	Total Metro CUME Millions of 12+ Listeners Fall 1997
1	CBS Radio	58,434,700
2	Chancellor	44,640,500
3	Jacor	22,675,800
4	Clear Channel	18,081,400
5	Capstar	16,675,900
6	ABC Radio	12,361,100
7	Cox	9,889,900
8	Emmis	8,842,900
9	Sinclair	6,237,300
10	Heftel	6,041,300
11	Bonneville	5,888,600
12	Entercom	5,567,100
13	Citadel	4,670,200
14	Susquehanna	4,619,200
15	Greater Media	4,385,900

Source: "Who Owns What," April 13, 1998, Arbitron Fall 1997.

We believe that this factor makes purchasing radio spots more compelling and efficient for national advertisers. Largely due to the benefits of the consolidation, national advertising placed in radio has outpaced the growth of local radio advertising over the past two years and has clearly outstripped that of national television advertising.

Exhibit 13. Advertising Spending — National Spot Television and National Spot Radio (1990-97)



Source: McCann Erickson Worldwide; Bear, Stearns & Co. Inc.

Going forward, we expect that local advertising should become even more important to local TV broadcasters, increasing the pressure on local television broadcasters to improve their market visibility and to capture a bigger share of the available advertising business in their local communities.

Reality No. 3: Broadcast Networks Are More Powerful — An Overview

Another reality facing local television operators is that broadcast networks are becoming more powerful relative to their affiliates. We believe this shift in power has occurred for several reasons, listed below.

- Broadcast networks own and/or have profit participation in a growing proportion of available programming.
- Broadcast networks own the majority of the 20 most-watched cable networks.
- Broadcast networks pay approximately $150-$200 million annually per network in compensation fees; networks want something in return. How long will the compensation arrangement last?
- Broadcast networks continue to increase the size of their owned and operated station bases (which actually helps the local affiliates, a topic we address later in this report).

As time passes, we believe that the relationships between the broadcast networks and their affiliates, which have always been somewhat tense, will likely become even more frayed. As we see it, the interplay between the two entities has already shifted to the point in which broadcast networks' interests are beginning to conflict with those of their affiliate stations.

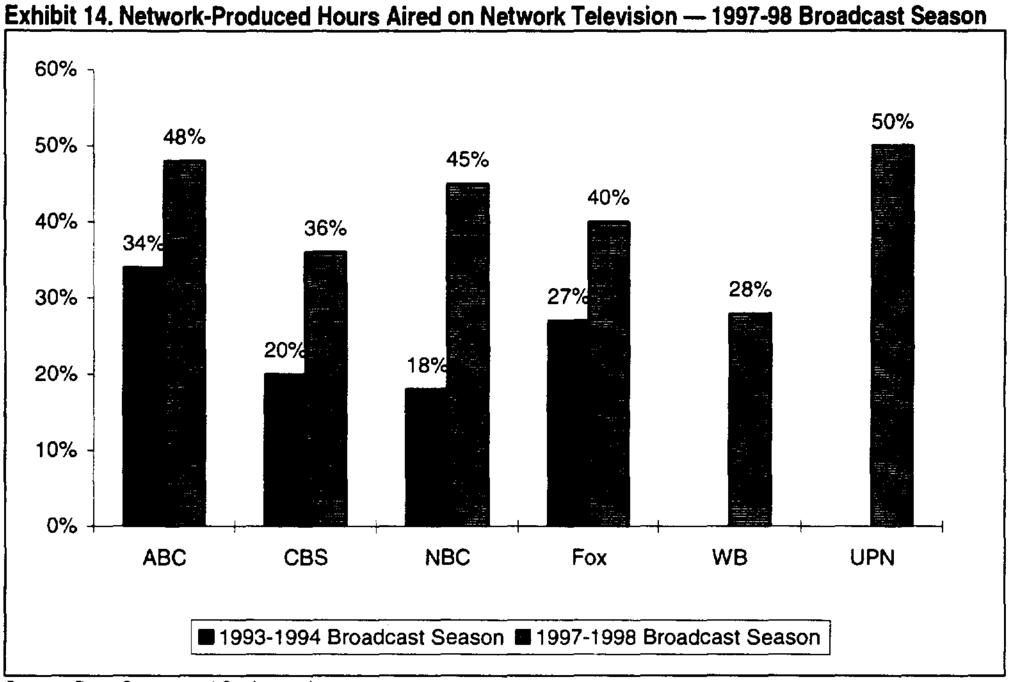
- Broadcast networks are not willing to grant program exclusivity to their affiliate base because the networks would rather amortize program and overhead costs over more distribution channels.
- Broadcast networks are not strong defenders of broadcast television ratings versus cable ratings because the networks own the majority of the most popular cable networks.
- In the long run, we expect the networks to acquire or control most programmers. This may ultimately place an upward pricing pressure on programs if the supply of programming becomes more constrained.
- The networks could control the flow of programming by choosing whether a program will enter broadcast syndication (for stronger programs) or be aired on network-owned cable networks. In some cases, we believe that programs that may have been sold into traditional broadcast syndication cycles may never get the chance to do so. This may restrict the flow of programming to local television broadcasters somewhat.

The Networks Have an Economic Interest in Owning Programs

In the early 1970s, both the Department of Justice (DOJ) and the Federal Communications Commission (FCC) took aggressive action against the broadcast television networks by generally refusing to allow them to own the programming that they aired in prime time. The two agencies acted independently, concerned by the power that the networks had over programmers and programming. The rules, which were referred to as the financial-syndication rules (or fin-syn), separated the producer of programming (Hollywood studios) from the exhibitor of programming (the networks). Networks could participate in the "first run" of a program but generally could not participate in a show's afterlife (syndication), except for shows produced within news divisions (e.g., "20/20, " "60 Minutes," "Primetime Live").

However, in the early 1990s, the networks were able to convince both the DOJ and the FCC that unrestrained competition in television and the concomitant fractionalization of audiences had changed the competitive framework of television to such an extent that the networks should once again be permitted to own the programming aired in prime time. In late 1994, the fin-syn rules were rescinded, and the networks once again began to actively participate in the production of their own programs. Exhibit 14 compares the percentage of shows in which the networks had an ownership interest in the broadcast year before the fin-syn rules (1993-94) with those in the beginning of the 1997-98 broadcast season. The ownership of programming should remain a driving force for the networks, especially in light of the rumored $13 million per episode renewal of "ER" by NBC for four seasons. We are certain that the networks will continue to try to avoid such situations by having an equity stake in the show from the beginning.

Exhibit 14. Network-Produced Hours Aired on Network Television — 1997-98 Broadcast Season



Source: Bear, Stearns and Co. Inc. estimates.

The networks pose a couple of potential threats to the affiliates over the intermediate term as they become more active in producing and taking ownership interests in programming.

- The networks may decide to place shows that would normally have entered broadcast syndication on owned cable networks, which could constrict the flow of programming into broadcast syndication and create more formidable competition for viewership against local broadcasters.

- The networks may ultimately opt to own more programming as well as more programmers. If the networks could control the flow of programming to the broadcast stations, thereby altering the programming supply/demand balance, then we could see increased pressures on programming prices over the intermediate term.

Networks Control Most of the Popular Cable Networks

As shown in Exhibit 15, the major broadcast networks (ABC, CBS, NBC, WB, Viacom [UPN], and a new broadcast entry [USA Networks, Inc.]) hold an economic interest in and/or a majority stake in 17 of the 20 most-watched cable networks in the country.

Exhibit 15. Ownership of 20 Most-Viewed Cable Networks

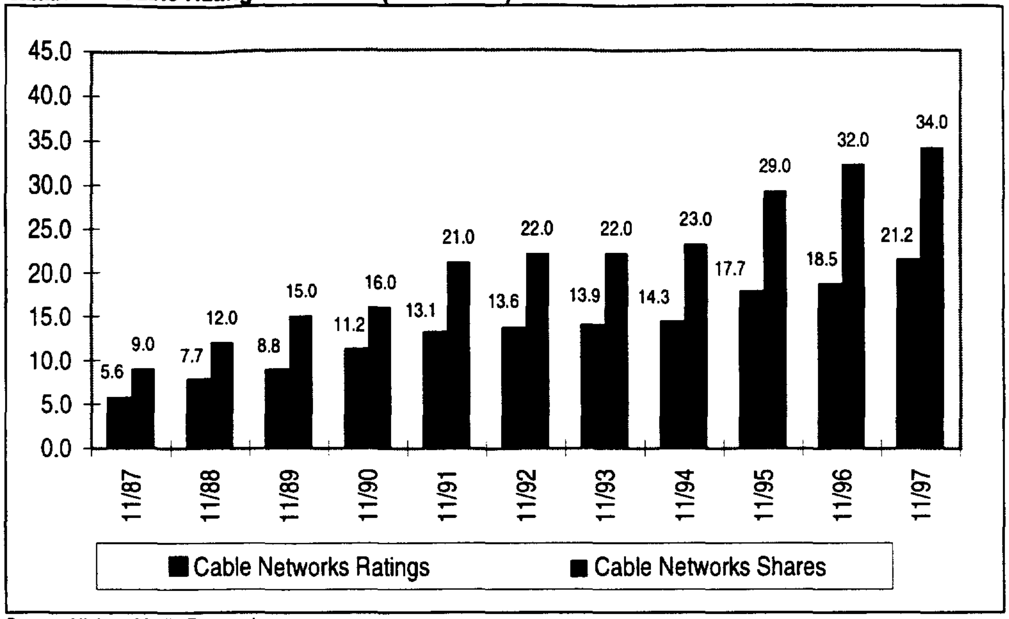
Network	Broadcast Network ABC	Broadcast Network CBS	Broadcast Network NBC	Broadcast Network Fox	Broadcast Network WB	Broadcast Network UPN	Broadcast Network USA	Total Networks	Other Owners
TNT	0.0%	0.0%	0.0%	0.0%	**100.0%**	0.0%	0.0%	100.0%	None
USA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**100.0%**	100.0%	None
TBS	0.0%	0.0%	0.0%	0.0%	**100.0%**	0.0%	0.0%	100.0%	None
Nickelodeon	0.0%	0.0%	0.0%	0.0%	0.0%	**100.0%**	0.0%	100.0%	None
Lifetime	**50.0%**	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	50.0%	Hearst (50%)
ESPN	**80.0%**	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	80.0%	Hearst (20%)
Family	0.0%	0.0%	0.0%	**100.0%**	0.0%	0.0%	0.0%	100.0%	None
A&E	**37.5%**	0.0%	**25.0%**	0.0%	0.0%	0.0%	0.0%	62.5%	Hearst (25%)
Discovery	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Liberty (49%), Cox (24.5%), Newhouse (24.5%), John Hendricks (2%)
CNN	0.0%	0.0%	0.0%	0.0%	**100.0%**	0.0%	0.0%	100.0%	None
Nashville Network	0.0%	**100.0%**	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	None
MTV	0.0%	0.0%	0.0%	0.0%	0.0%	**100.0%**	0.0%	100.0%	None
WGN	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**Tribune (100%) - 50% Partner in WB**
Cartoon	0.0%	0.0%	0.0%	0.0%	**100.0%**	0.0%	0.0%	100.0%	None
CNBC	0.0%	0.0%	**100.0%**	0.0%	0.0%	0.0%	0.0%	100.0%	None
Sci-Fi	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**100.0%**	100.0%	None
BET	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Robert Johnson (49%), Liberty Media Corp. (22%), Public (29%)
Learning Channel	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Liberty (49%), Cox (24.5%), Newhouse (24.5%), John Hendricks (2%)
Headline News	0.0%	0.0%	0.0%	0.0%	**100.0%**	0.0%	0.0%	100.0%	None
Comedy Channel	0.0%	0.0%	0.0%	0.0%	**50.0%**	**50.0%**	0.0%	100.0%	None

Source: Federal Communications Commission; National Cable Television Association; Bear, Stearns and Co. Inc. estimates.

We believe this has several far-reaching implications for local TV broadcasters, described below.

- **Cable Viewership Is Displacing Broadcast Viewership.** As depicted in the next exhibit, cable television's share of prime-time viewership increased to 35% in the 1997-98 broadcast season (during the November 1997 sweeps) from 9% in the 1987-88 period. Total daytime cable viewing has expanded at an even faster clip, climbing to 40% in the 1997-98 broadcast season (November 1997 sweeps) from 10% in the 1987-88 period.

Exhibit 16. Cable Ratings and Share (Prime Time) 1987-97



Source: Nielsen Media Research.

Obviously, cable networks have had a meaningful effect on the size of the local television stations' daytime and prime time program ratings and local viewership share. We believe the impact has been greater in markets with particularly high levels of cable penetration.

Exhibit 17. Ten Highest- and Lowest-Penetrated Markets for Cable Television

Ten Highest - Market (Market Rank)		Ten Lowest - Market (Market Rank)	
Honolulu (71)	87.7%	Green Bay-Appleton (70)	59.3%
Hartford-New Haven (27)	86.5%	South Bend-Elkhart (85)	59.2%
West Palm Beach-Ft. Pierce (43)	83.6%	Phoenix (17)	58.6%
San Diego (26)	82.5%	Houston (11)	56.5%
Wilkes Barre-Scranton (47)	79.9%	Salt Lake City (36)	56.1%
Johnstown-Altoona (92)	79.6%	Fresno-Visalia (55)	53.1%
Ft. Myers-Naples (83)	79.1%	St. Louis (21)	52.8%
Pittsburgh (19)	78.9%	Dallas-Ft. Worth (8)	52.1%
Boston (6)	77.9%	Minneapolis-St. Paul (14)	51.5%
Providence-New Bedford (49)	77.5%	Springfield, MO (77)	49.5%

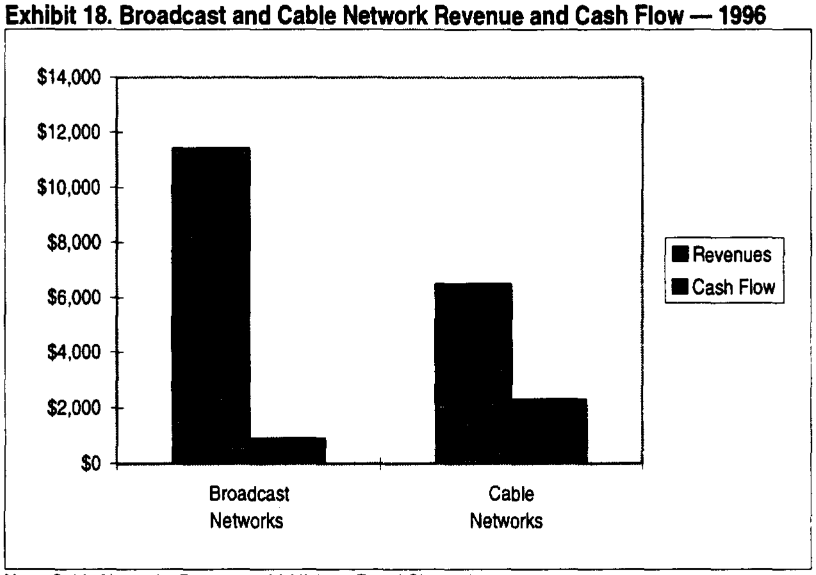
Source: Nielsen Media Research; Bear, Stearns and Co. Inc. estimates.

- **Networks May Deny Programming Exclusivity to Affiliates.** One of the most explosive points of contention between the networks and their affiliates is the issue of programming exclusivity. The affiliate base does not want the networks to air staple network (and, therefore, the local affiliates' stations') programs and talent on the networks' owned cable channels. For example, NBC airs "Late Night with Conan O'Brien" at 12:30 a.m. and then repeats it on CNBC. Also, in the past, NBC has shown a sporting event, signed off the event on its broadcast stations, and then advised viewers that they can watch further postgame coverage on MSNBC. This issue, perhaps more than any other, upsets local affiliates, which rely on the brand identity of these programs and talent to attract viewership.

- **Networks Have Not Defended Broadcast Ratings.** The broadcast television industry is under constant assault from the Cable Advertising Bureau (CAB) about the veracity of broadcast TV ratings. Although it is undeniably true that the cable networks have had a measurable and significant impact on broadcast television's ratings, the numbers for the latter are still formidable. Nonetheless, we believe that the most likely sources of defense for these ratings — the broadcast networks — are conflicted because of the significant economic stake they now have in cable. Over the past month, CBS Corp. has created a marketing piece that implies that the networks overindex most cable networks in terms of the most desirable demographics. We believe that this is an important observation by the networks. However, we are also not surprised that CBS is leading the charge on this issue, since its has the smallest presence in cable in the business (including the newer networks and WB and UPN's parent companies, Time Warner and Viacom).

  At the root of this problem, in our view, is the disparity between the profit margins earned at a cable network and at a broadcast network. The cable industry's ability to generate two revenue streams (advertising and subscription fees) makes the cable business inherently less risky and more profitable. For example, in Exhibit 18, we estimate that ABC, CBS, NBC, and Fox earned less than $900 million in cash flow in 1996 on nearly $11.4 billion in revenue (a 7.9% margin), while the top 20 cable networks reported roughly $2.3 billion in cash flow on nearly $6.5 billion in revenue (a 35.3% margin). The broadcast networks require a tremendous amount of incremental infrastructure to generate similar levels of cash flow. In our opinion, it would be too difficult for the networks to risk undermining these compelling economics by defending broadcast ratings. However, at some point, we believe there will be enough economic pressure on the network model that more aggressive promotion of the business will ensue.

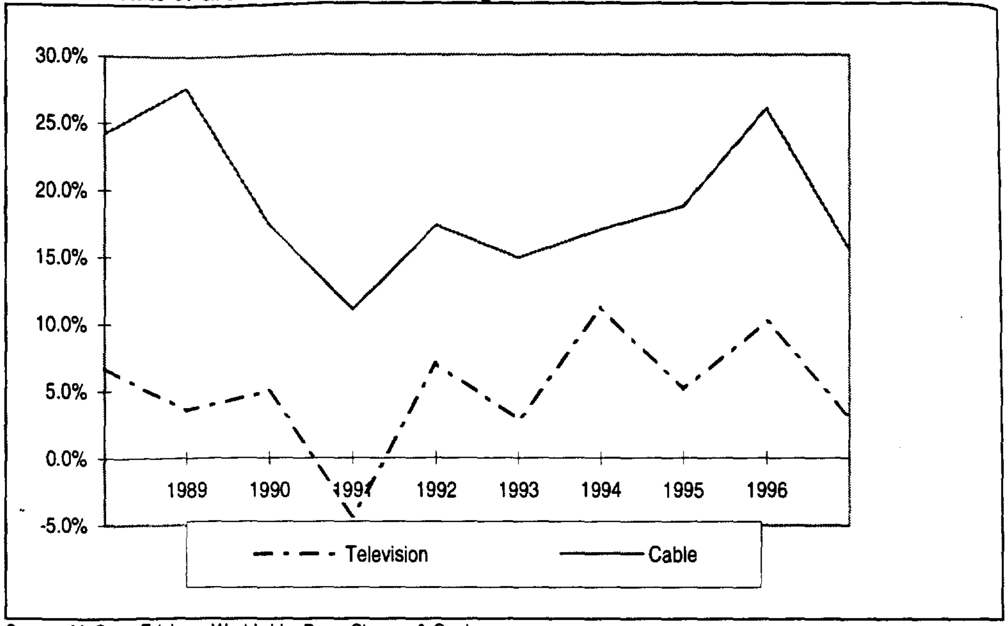
Exhibit 18. Broadcast and Cable Network Revenue and Cash Flow — 1996



Note: Cable Networks Represent 20 Highest-Rated Channels
Source: Paul Kagan Associates; *Broadcasting & Cable.*

- **Cable Network Advertising Is Growing Quickly, But Its Share of Local Advertising Is Still Low.** As illustrated in Exhibit 19, the growth in the cable industry's local and national advertising revenues is expanding much more rapidly than that of local television stations. This is a reflection of cable television's widening viewership share.

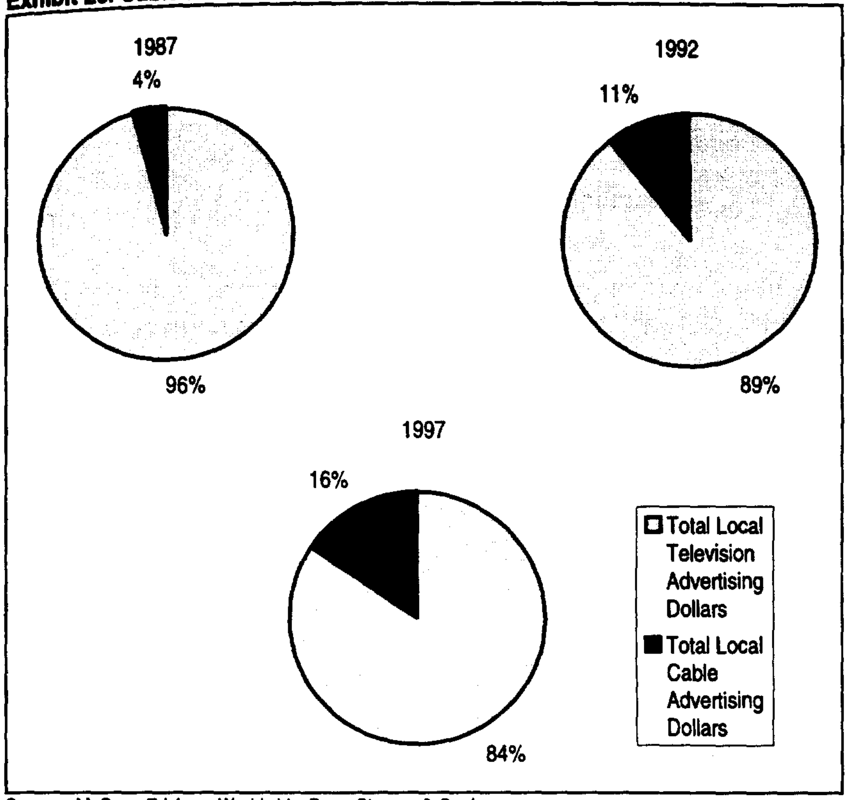
Exhibit 19. Rate of Growth of Cable Advertising Versus Broadcast



Source: McCann Erickson Worldwide; Bear, Stearns & Co. Inc.

However, we believe that the cable advertising story on a local market basis is more difficult to analyze. If one looks at the market-by-market ratings books produced by Nielsen, it is rare to find more than a handful of cable networks (if any at all) that produce meaningful ratings in the local market. Also, we believe that only 15%-25% of all of cable network advertising spots are available locally. Finally, although it is less obvious, many local markets support multiple cable system operators, making it tougher for a local advertiser to coordinate the placement of advertising. However, as more and more cable systems "cluster" and as inventory insertion (ad placement) becomes more sophisticated, we believe local cable ads will be sold more aggressively, making cable system operators more formidable rivals in the battle for local advertising. Overall, we expect this factor to continue to hinder the cable networks' share of local television advertising share. However, cable systems may already be learning how to more effectively sell local inventory, especially given their momentum in ratings and viewership share. If this proves true, terrestrial broadcasters could come under even more intense pressure.

Exhibit 20. Cable Network's Share of Local Television Dollars



Source: McCann Erickson Worldwide; Bear, Stearns & Co. Inc.

Networks Pay Significant Compensation to Local Broadcasters

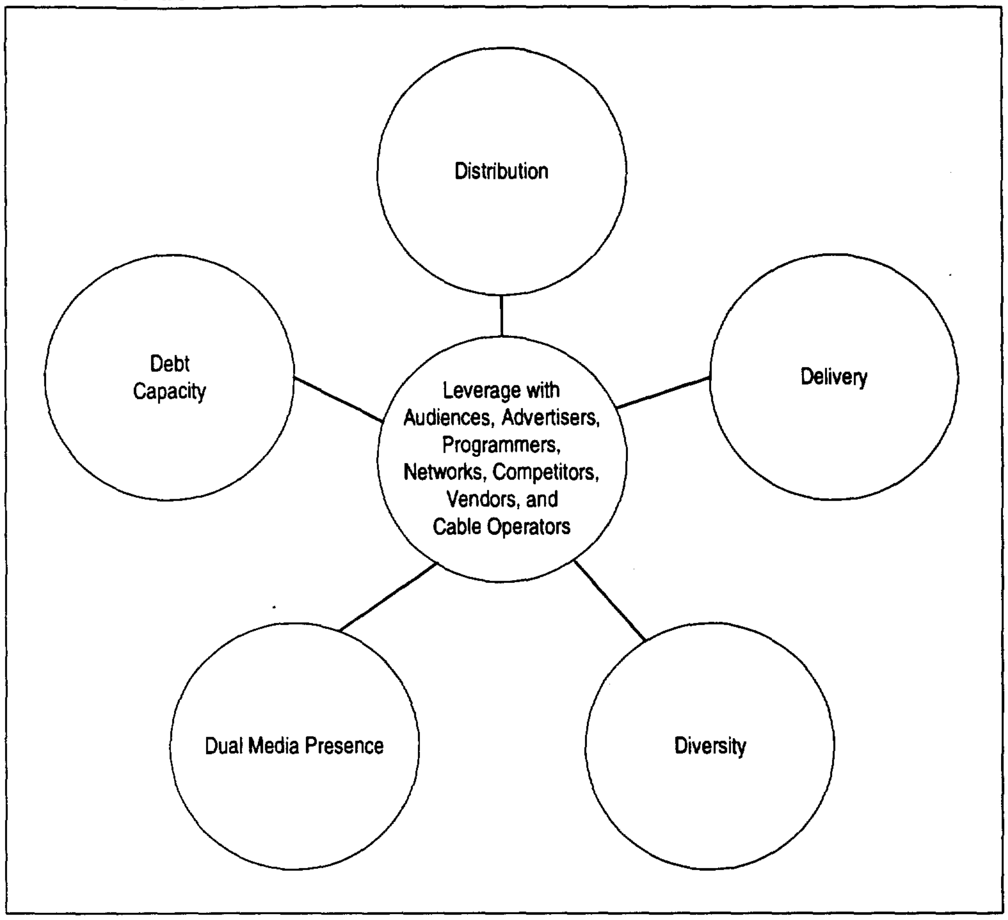
The financial relationship between the networks and their affiliates was dramatically altered in 1995, when New World Communications (which was subsequently purchased by News Corp.) decided to switch the affiliation of all of its television properties to Fox from ABC, CBS, and NBC. In the wake of this event, most broadcast networks had to scramble to secure distribution as affiliation switches became rampant. After the dust cleared, we estimate that the average Big Three network compensation doubled to roughly \$150-\$200 million per year from approximately \$75-\$100 million per year. We believe the networks will ultimately demand something extra in return for this increased cost by 1) not granting exclusivity, 2) asking for inventory to pay for increased program rights (such as the NFL), and/or 3) reducing network compensation.

In May 1998, we believe NBC proposed changing its relationship with its affiliates in order to address escalating rights fees and the network compensation paid to affiliates. The network allegedly (we have not read the document) proposed to 1) shift some network compensation dollars to a new venture owned by the affiliates and the network; 2) offer affiliates the ability to invest in a 10% stake of its cable news channel, MSNBC; and 3) give affiliates an "early look" at new media investments. We believe that the proposed start date of this deal is a few years away, but it could mark the beginning of a series of dialogues that could take place between networks and their affiliate groups over the next several years.

How Broadcasters Can Seize Control of Their Destiny

We believe there are five essential factors on which television broadcasters need to focus in order to gain greater control of their own destinies: 1) distribution, 2) delivery, 3) diversity, 4) dual-media presence, and 5) debt capacity and balance sheet flexibility.

Exhibit 21. Control Factors for Local Broadcasters



Source: Bear, Stearns and Co. Inc. estimates.

CONTROL FACTOR NO. 1: DISTRIBUTION

We believe it will be critical for television broadcasters to build significant distribution bases (in terms of absolute size as well as depth), as this is the ultimate gateway between programmers and viewers. Several recent industry events suggest that the industry agrees.

- Walt Disney purchased Cap Cities/ABC, which secured control of a major distribution point for its programming *(1995)*.
- New World Communications executed massive affiliation switch from the Big Three networks to Fox Broadcasting *(1995)*.
- News Corp. acquired New World Communications, bringing Fox's reach to 40.5% of all U.S. TV households *(1996)*.

- Warner Brothers entered into a contract that will pay Sinclair Broadcast Group $84 million over the next ten years in exchange for switching license affiliations to WB from UPN in markets affecting 4%-5% of all U.S. TV households *(1997)*.

- Paxson Communications purchased "stick" (no cash flow) television properties in New York (for $257 million) and Chicago (for $128 million) to "clear" for the new PaxNet network *(1997)*.

- Broadcasters were assigned an additional six MHz of spectrum with which to develop digital services (video, text, data, etc.). The ability to develop a total of 12 MHz of spectrum should prove valuable. The completion of the digital license allocations spells the end of new spectrum availability in television *(1998)*.

- USA Network, Inc.'s stick television station in Baltimore, Maryland, was bought for $80 million by Chris-Craft Industries, a partner in the UPN network, to replace the Baltimore affiliate lost when Sinclair switched its market affiliation to WB *(1998)*.

- The networks commit to significant rights fees escalations for the purchase of NFL football. ABC network pays $550 million for "Monday Night Football," CBS pays $500 million for the American Football Conference (AFC), and Fox pays $500 million for the National Football Conference (NFC) — all of which will be shown on over-the-air broadcast television *(1998)*.

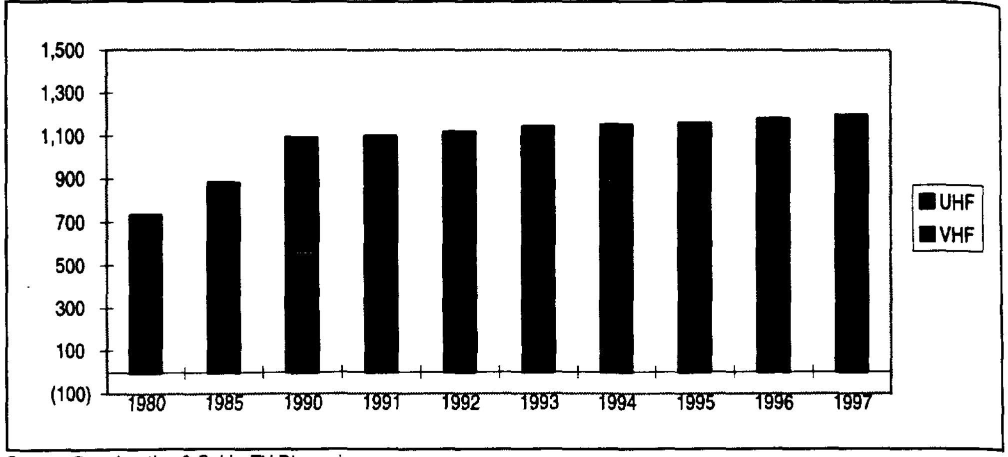
- NBC purchased an 80% economic stake in KXAS-TV in Dallas, valued in excess of $875 million *(1998)*.

- USA Broadcasting, an operating unit of USA Networks, enters the local television business with the launch of a television station in Miami in June *(1998)*.

- PaxNet, a family-oriented network, is scheduled to launch in August *(1998)*.

The broadcast television industry's supply/demand balance has shifted dramatically over the past five years, as the development of television programming has exploded and the amount of terrestrial broadcast spectrum through which this programming is distributed has diminished. This, we believe, has highlighted the value of distribution, and because of this we still believe distribution has the "upper hand" relative to programming. As shown in Exhibit 22, the number of new television stations, which rose at a significant rate throughout the 1980s with the emergence of the Fox network and independents, has slowed considerably throughout the 1990s as available spectrum has been built out.

Exhibit 22. Number of UHF and VHF Commercial Television Stations (1980-97)



Source: *Broadcasting & Cable*; TV Dimensions.

There are a number of ways to measure video distribution. First, we gauge the ultimate reach of a broadcaster using the number of TV households that it can reach with its owned and operated television station group, regardless of whether the station is a UHF (ultra-high frequency) or VHF (very high frequency, channels 2 through 13). We refer to this measure as "syndicator clearance," because syndicators do not differentiate between whether they clear a television show on a UHF or VHF station; they want to clear markets for their programs. Exhibit 23 lists the top 25 television broadcasters ranked by this measure. Emerging networks, such as USA Broadcasting (USA Networks, Inc.) and PaxNet, rank high in terms of syndicator clearance, even though these groups currently do not generate significant numbers of viewers or sums of money. In addition, ethnic networks, such as Univision and Telemundo, also are ranked highly by this measure, although they compete for a much narrower target market of viewers and advertising dollars.

Exhibit 23. Top 25 Broadcast Television Groups Ranked by Syndicator Clearance

Rank	Company	Total Syndicator Clearance
1	Paxson Communications	57.1%
2	News Corp. (Fox Broadcasting)	40.4%
3	Tribune	35.6%
4	CBS Corp.	31.8%
5	USA Networks, Inc.	31.0%
6	General Electric (NBC)	27.3%
7	Univision Communications	27.0%
8	Disney (ABC)	24.2%
9	Viacom	23.8%
10	Sinclair Broadcast	22.4%
11	Chris-Craft Industries (BHC, United)	21.6%
12	Telemundo Group	21.5%
13	Gannett Broadcasting	16.3%
14	A.H. Belo	14.2%
15	Raycom	10.2%
16	Scripps Howard	9.8%
17	Cox Enterprises	9.5%
18	Young Broadcasting	9.2%
19	Hearst-Argyle Television	8.9%
20	Glencairn Acquisitions	8.5%
21	Meredith	7.7%
22	Washington Post	7.1%
23	Granite Broadcasting	7.0%
24	All-American TV, Inc.	6.8%
25	Clear Channel	6.2%

Note: Clearance rank is based on total clearance of a broadcaster's station group based on the number of cumulative television households reached (%) within that group's Designated Marketing Areas (DMAs). This rank includes pure independent, ethnic, and home shopping stations.

Source: Bear, Stearns & Co. Inc.; Nielsen Media Research; BIA Investing in Television '97.

Exhibit 24. Top 25 Broadcast Television Groups Ranked from FCC Perspective

Rank	Company	Total FCC Clearance
1	News Corp. (Fox Broadcasting)	34.6%
2	Paxson Communications	32.2%
3	CBS Corp.	30.9%
4	Tribune	26.0%
5	General Electric (NBC)	25.9%
6	Disney (ABC)	23.9%
7	Chris-Craft Industries (BHC, United)	18.7%
8	Gannett Broadcasting	15.7%
9	USA Networks, Inc.	15.5%
10	Sinclair Broadcast	13.5%
11	Univision Communications	13.5%
12	A.H. Belo	13.4%
13	Viacom	12.7%
14	Telemundo Group	10.8%
15	Cox Enterprises	9.3%
16	Young Broadcasting	9.1%
17	Hearst-Argyle Television	8.6%
18	Scripps Howard	8.0%
19	Raycom	7.4%
20	Washington Post	7.1%
21	Meredith	6.2%
22	Pulitzer	5.2%
23	Media General	5.0%
24	LIN Television Corp. (Hicks, Muse)	5.0%
25	Glencairn Acquisitions	4.5%

Note: FCC rank is based on total clearance of a broadcaster's station group based on the number of cumulative television households reached within that group's Designated Marketing Areas (DMAs), taking into account the ethnic and home shopping stations.

Source: Bear, Stearns & Co. Inc.; Nielsen Media Research; BIA Investing in Television '97.

We also assessed the acquisition potential of each broadcast group, analyzing the world of distribution through the eyes of the FCC and Congress. First, we counted UHF stations at half the level of VHF stations in determining the reach of a broadcaster's group. Exhibit 24 ranks the top 25 broadcasters according to this FCC view of the broadcast world. This measure provides a sense of the acquisition potential of a group by showing how close to the 35% TV household ownership cap.

In our view, operators that own a disproportionate share of UHF stations have a unique edge because of the treatment that UHF stations are afforded relative to the 35% ownership limits in the Telecommunications Act. Since UHF stations' reach is only half that of a VHF station, technically an all-UHF group can reach 70% of U.S. television households before violating the FCC's rules. Exhibit 25 calculates the ratio of each broadcaster's "FCC clearance to syndicator clearance". An all-UHF group, by this measure, would have a ratio of 50% (0.5x), while an all-VHF station group would have a ratio of 100% (1.0x).

Exhibit 25. Top 25 Broadcasters — FCC Clearance to Syndicator Clearance Ratio

Broadcaster	FCC Clearance	Syndicator Clearance	FCC/Syndicator Clearance	Telecom Act Ownership Cap	Acquisition Capacity	FCC Clearance to Maximum
Paxson Communications	32.2%	57.1%	56.4%	35.0%	2.8%	91.9%
News Corp. (Fox Broadcasting)	34.6%	40.4%	85.6%	35.0%	0.4%	98.9%
Tribune	26.0%	35.6%	73.1%	35.0%	9.0%	74.3%
CBS Corp.	30.9%	31.8%	97.1%	35.0%	4.1%	88.2%
USA Networks, Inc.	15.5%	31.0%	50.1%	35.0%	19.5%	44.4%
General Electric (NBC)	25.9%	27.3%	95.0%	35.0%	9.1%	74.1%
Univision Communications	13.5%	27.0%	50.0%	35.0%	21.5%	38.5%
Disney (ABC)	23.9%	24.2%	99.0%	35.0%	11.1%	68.3%
Viacom	12.7%	23.8%	53.2%	35.0%	22.3%	36.2%
Sinclair Broadcast	13.5%	22.4%	60.2%	35.0%	21.5%	38.5%
Chris-Craft Industries (BHC, United)	18.7%	21.6%	86.7%	35.0%	16.3%	53.5%
Telemundo Group	10.8%	21.5%	50.0%	35.0%	24.2%	30.7%
Gannett Broadcasting	15.7%	16.3%	96.5%	35.0%	19.3%	45.0%
A.H. Belo	13.4%	14.2%	94.6%	35.0%	21.6%	38.3%
Raycom	7.4%	10.2%	72.5%	35.0%	27.6%	21.0%
Scripps Howard	8.0%	9.8%	81.7%	35.0%	27.0%	22.9%
Cox Enterprises	9.3%	9.5%	98.6%	35.0%	25.7%	26.7%
Young Broadcasting	9.1%	9.2%	98.6%	35.0%	25.9%	25.9%
Hearst-Argyle Television	8.6%	8.9%	97.0%	35.0%	26.4%	24.5%
Glencairn Acquisitions	4.5%	8.5%	52.9%	35.0%	30.5%	12.8%
Meredith	6.2%	7.7%	81.1%	35.0%	28.8%	17.8%
Washington Post	7.1%	7.1%	100.0%	35.0%	27.9%	20.4%
Granite Broadcasting	4.2%	7.0%	60.1%	35.0%	30.8%	12.1%
All-American TV, Inc.	3.4%	6.8%	50.0%	35.0%	31.6%	9.7%
Clear Channel	3.4%	6.2%	54.6%	35.0%	31.6%	9.6%

Source: Bear, Stearns & Co. Inc.; Nielsen Media Research; BIA Investing in Television '97.

For example, 90% of Sinclair Broadcast Group's clearance is comprised of UHF stations. So, while the company's owned and operated stations reach nearly 22.4% of all U.S. television households, in the eyes of the FCC, Sinclair reaches slightly more than 13.5% of U.S. TV households. This implies that Sinclair could add 21.5% more clearance with VHF stations and 43.0% more clearance with UHF stations before reaching the FCC caps. Currently, Sinclair has only reached 38.5% of its theoretical acquisition capacity.

As mentioned earlier, we believe that large distribution bases will give television broadcasters several competitive advantages over their smaller peers, as they can achieve greater influence with the constituents listed below.

- ***Programmers.*** We believe that the larger broadcast groups can virtually guarantee access to almost any program available in syndication. Moreover, larger broadcasters may be able to strike "group" purchases of programs, which could ultimately save them money at the margin.

- ***Networks.*** In our view, the larger a broadcaster's distribution base, the more it will be able to have a say in the decision-making process with the broadcast networks, which have grown much more powerful in recent years. Exhibit 26 summarizes the five largest affiliate groups for the networks, including the networks themselves.

Exhibit 26. Largest Affiliate Groups of Broadcast Networks

ABC Owner	Household Coverage	CBS Owner	Household Coverage	NBC Owner	Household Coverage	Fox Owner	Household Coverage	WB Owner	Household Coverage	UPN Owner	Household Coverage
Disney (ABC)	24.2%	CBS Corp.	31.8%	General Electric (NBC)	27.3%	News Corp. (Fox)	40.4%	Tribune	27.7%	Viacom	22.8%
Scripps Howard	7.9%	A.H. Belo	4.9%	Gannett Broadcasting	10.5%	Sinclair Broadcast	10.2%	Granite Broadcasting	4.2%	Chris-Craft Industries	19.2%
Hearst-Argyle Television	6.5%	Gannett Broadcasting	4.7%	A.H. Belo	4.0%	Tribune	5.6%	Acme Television, LLC	3.9%	News Web	4.4%
Albritton Communications	4.5%	Raycom	3.6%	Pulitzer	3.6%	Clear Channel	3.5%	Glencairn Acquisitions	3.5%	Glencairn Acquisitions	1.6%
A.H. Belo	4.3%	Meredith	3.5%	Washington Post	3.5%	Meredith	3.4%	Sinclair Broadcast	3.4%	Clear Channel	0.4%

Source: Bear, Stearns and Co. Inc. estimates.

- ***Vendors.*** Larger television operators can use bulk purchasing, thereby helping to reduce or slow the growth of expenses with major vendors such as research providers, national representation firms, and equipment suppliers.

- ***Audiences.*** Large broadcast groups are able to deliver big audiences across their station group, which is particularly appealing to advertisers looking to get the biggest bang for their buck.

CONTROL FACTOR NO. 2: DELIVERY

Ultimately, a broadcaster will not be able to attract its fair share of local and national advertising dollars unless it can deliver large audiences and/or desirable demographics to advertisers. In a fractionalized television market, we believe it is essential to:

- be ranked as the first or second Big Three affiliate in a local market sign-on to sign-off; or

- be ranked as the first or second early and late news stations in a local market; or

- deliver a disproportionate share of attractive demographics (teens and adults aged 18-34 or 25-54; women aged 18-34 or 25-54; and men aged 18-34 or 25-54).

The Performance of Local News Is a Leading Indicator

Local news is an essential programming source for a local television station, especially those affiliated with the traditional Big Three and, even more so, the local Fox network. This is true for several reasons, described below.

- **Local Broadcasters Own 100% of the Advertising Inventory in Local News.** Local news shows and other locally produced shows are among the few programs in which the local broadcaster keeps 100% of the advertising inventory. For example, during the morning (e.g., "The Today Show" and "Good Morning America"), soap opera, prime-time, and late-night ("The Tonight Show with Jay Leno," "The Late Show with David Letterman") programming slots, the networks keep approximately 75% of all advertising inventory (nine out of 12 spots per hour, on average). During the evening network news (e.g., "CBS Evening News with Dan Rather"), local broadcasters receive no advertising inventory at all. The combination of strong local viewing interest in local news and the fact that stations control 100% of a local station's advertising inventory make this type of programming one of the most important profit centers at a local station. As illustrated in Exhibit 27, local news accounts for an estimated 30% of a local "Big Three" television stations' total inventory and revenue.

Exhibit 27. Percentage of Revenue

	Early AM	AM Kids	Day	Afternoon Kids	Early Fringe	Early News	Access	Prime Time	Late News	Late Fringe	Weekend
ABC, CBS and NBC	5%	0%	6%	0%	7%	13%	12%	29%	16%	9%	5%
Fox	3%	5%	2%	8%	17%	NA	23%	22%	8%	9%	11%
Independents/WB/UPN Affiliates	3%	4%	3%	5%	16%	NA	22%	21%	11%	11%	9%

Source: Bear, Stearns and Co. Inc. estimates.

- **Local News Rankings Correlate Strongly with Total Day Ratings.** Our research shows that there is a strong correlation between a local broadcaster's local news viewership ranking and its total day ratings, regardless of network affiliation. Exhibit 28 illustrates this correlation by comparing a station's early-evening news viewership ranking with its sign-on/sign-off viewership ranking in the top 50 markets. We focused on this set of rankings because they do not reflect any influence from the broadcast networks. In fact, the lead-in program to most early evening news programs is typically "purchased" by the local TV station. Local news reflects the strength of this purchased lead-in and the news product itself; we believe these time periods most accurately reflect the station's ability to attract audiences on its own.

Exhibit 28. Correlation of Rank in Early News and Sign-On/Sign-Off Rank — Top 50 Markets

	Early News Rank #1	Early News Rank #2	Early News Rank #3
Number of Stations			
Total Day Rank #1	36	14	2
Total Day Rank #2	15	31	4
Total Day Rank #3	1	4	43
Total Stations	52	49	49
Percent			
Total Day Rank #1	69%	29%	4%
Total Day Rank #2	29%	63%	8%
Total Day Rank #3	2%	8%	88%

Note: Analysis was based on November 1997, May 1997, and February 1998 share data for ABC, CBS, and NBC affiliates in top 50 markets. There were total day ties for No. 1 in Washington and Kansas City, ties for No. 2 in Philadelphia and Pittsburgh, and a three-way early-news tie for No. 1 in San Diego.

Source: BIA Investing in Television '97; Bear, Stearns & Co. Inc.

As shown in Exhibit 28, roughly 70% of the time, a station that has the top-ranking early-news program also wins in viewership during the entire day. On the opposite side of the spectrum, nearly 90% of the time, the third-highest ranked local news program is associated with the third-ranking television stations in terms of total day viewership. In general, a station's ability to successfully deliver larger audiences should translate to revenue leadership as well. Considering that news programming can represent as much as 30%-35% of a station's revenue base, it is imperative that the investment pay off.

As we mentioned earlier in this report, we believe it is essential for local network affiliated stations to hold the first- or second-highest viewership rankings in their markets in order to be economically viable. As shown in Exhibit 29, 93% of the time, the stations that fit this ranking also enjoy the biggest revenues in a market.

Exhibit 29. Correlation of Rank in Early News and Revenue — Top 50 Markets

	Early News Rank #1	Early News Rank #2	Early News Rank #3
Number of Stations			
Revenue Rank #1	26	21	5
Revenue Rank #2	21	22	6
Revenue Rank #3	3	8	38
Total Stations	50	51	49
Percent			
Revenue Rank #1	52%	41%	10%
Revenue Rank #2	42%	43%	12%
Revenue Rank #3	6%	16%	78%

Note: Analysis was based on November 1997, May 1997, and February 1998 share data for ABC, CBS, and NBC affiliates in top 50 markets. There were total revenue ties for No. 2 in Hartford-New Haven.

Source: BIA Investing in Television '97; Bear, Stearns & Co. Inc.

It is important to note that the broadcasters with the top-rated news franchises and local programming can use these strengths to counterbalance the vicissitudes of network affiliations. For example, despite NBC's supremacy in prime-time ratings for the past three years, the top revenue-producing stations in the largest 50 markets are not solely NBC affiliates. As depicted in Exhibit 30, in the top 50 markets, 17 ABC, eight CBS, and 25 NBC affiliates were the highest revenue-grossing stations in their various markets among the traditional Big Three affiliates. This supports our contention that the dominant local broadcast stations can overcome the weaknesses of their networks and still deliver audiences.

Exhibit 30. Correlation of Revenue Rank by Affiliation — Top 50 Markets

	ABC	CBS	NBC	Total
Number of Stations				
Total Revenue Rank #1	17	8	25	50
Total Revenue Rank #2	16	15	20	51
Total Revenue Rank #3	17	27	5	49
Total Stations	50	50	50	
Percent				
Total Revenue Rank #1	34%	16%	50%	
Total Revenue Rank #2	32%	30%	40%	
Total Revenue Rank #3	34%	54%	10%	

Note: Analysis was based on November 1997, May 1997, and February 1998 share data for ABC, CBS, and NBC affiliates in top 50 markets. There was a tie in revenue rank for number two in Hartford-New Haven.

Source: BIA Investing in Television '97; Bear, Stearns & Co. Inc.

- **Local Stations Are Producing More Hours of Local News.** In general, we believe that local broadcast stations are producing increasing amounts of local news. Once predominantly aimed at the early- and late-evening time slots, local stations are now producing news product for the early morning and midday hours. They have also extended early-evening news hours from 5:30 p.m. to 6:30 p.m. (EST) and have added weekend news shows. We think that local broadcasters have done this for several reasons: 1) they are able to add incremental hours of local news at attractive margins, essentially amortizing fixed news expenses over more program hours; 2) they can reduce the local station's dependency on syndicated television product; and 3) they can control and sell more advertising inventory.

- **Advertisers Pay for Local News.** We think the local news product is one of the most highly sought-after advertising vehicles for products and services companies. In general, we believe that local stations are able to charge disproportionately higher rates for local news product because 1) ratings are strong, 2) demographics are predictable, and 3) it is the ultimate connection between an advertiser and the community.

Attractive Demographics Deliver Revenues

A local station's demographic profile is another measure of audience delivery that is of particular relevance to advertisers. In general, many of the emerging networks, such as Fox, WB, and UPN, have focused on delivering younger viewers and have done so successfully (i.e., they are earning substantial revenue share relative to overall audience share). In prime time, the demographics battles are being fought among the major broadcast networks. For the past few years, NBC has dominated the 18-34 and 25-54 demographic segments. Exhibit 31 summarizes the 1997-98 and 1996-97 broadcast seasons' household audience delivery among adults aged 18-49 and 25-54. Fox, WB, and UPN all have attractive demographic mixes, especially given distribution disadvantages (especially with WB and UPN). For example, while Fox delivers only 83%, 72%, and 70% of the TV households delivered by ABC, CBS, and NBC, respectively, it delivers 100%, 114%, and 76% of adults 18-49 relative to the Big Three networks, respectively. Given their distribution bases, the WB and UPN networks also fare very well in this type of analysis. Because of this disproportionate delivery of younger viewers, operators with a disproportionate share of distribution associated with Fox, UPN, and WB should continue to do well in the local marketplace.

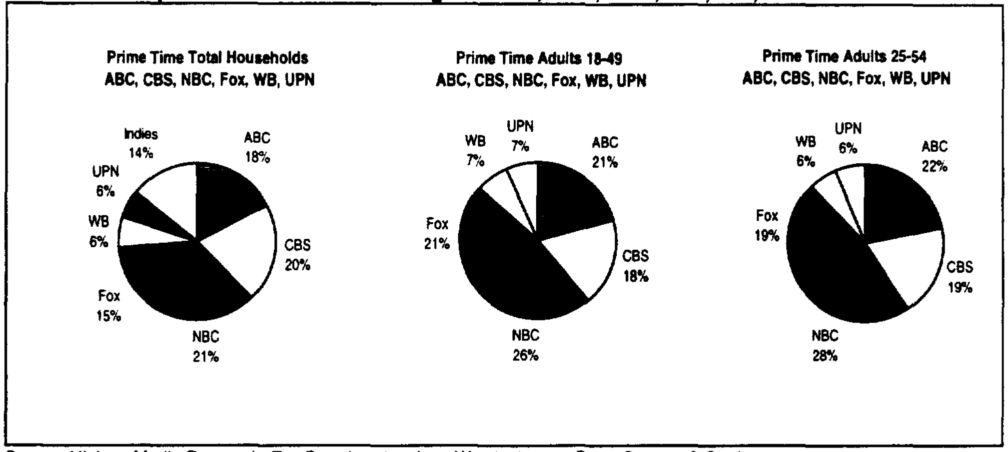
Exhibit 31. Summary of Television Ratings — Average Households and Adults over the 1997-98 Season to Date
28 Weeks of 1997-98 Broadcast Season Ending April 5, 1998

Prime Time - Total Households	ABC	CBS	NBC	Fox	WB	UPN
1997- 1998 Season	8,385	9,664	10,010	6,985	3,039	2,798
1996 - 1997 Season	9,077	9,343	10,233	7,604	2,534	3,101
Change	**-7.6%**	**3.4%**	**-2.2%**	**-8.1%**	**19.9%**	**-9.8%**
Prime Time - Adults 18-49						
1997- 1998 Season	6,259	5,486	8,164	6,242	2,008	2,034
1996 - 1997 Season	6,783	5,363	8,296	6,732	1,599	2,406
Change	**-7.7%**	**2.3%**	**-1.6%**	**-7.3%**	**25.6%**	**-15.5%**
Prime Time - Adults 25-54						
1997- 1998 Season	6,525	6,230	8,302	5,729	1,739	1,881
1996 - 1997 Season	6,949	5,954	8,443	6,237	1,381	2,231
Change	**-6.1%**	**4.6%**	**-1.7%**	**-8.1%**	**25.9%**	**-15.7%**
Relative Audience Delivery - Households	**ABC**	**CBS**	**NBC**	**Fox**	**WB**	**UPN**
ABC	100%	115%	119%	83%	36%	33%
CBS	87%	100%	104%	72%	31%	29%
NBC	84%	97%	100%	70%	30%	28%
Fox	120%	138%	143%	100%	44%	40%
WB	276%	318%	329%	230%	100%	92%
UPN	300%	345%	358%	250%	109%	100%
Relative Audience Delivery - Adults 18-49	**ABC**	**CBS**	**NBC**	**Fox**	**WB**	**UPN**
ABC	100%	88%	130%	100%	32%	32%
CBS	114%	100%	149%	114%	37%	37%
NBC	77%	67%	100%	76%	25%	25%
Fox	100%	88%	131%	100%	32%	33%
WB	312%	273%	407%	311%	100%	101%
UPN	308%	270%	401%	307%	99%	100%
Relative Audience Delivery - Adults 25-49	**ABC**	**CBS**	**NBC**	**Fox**	**WB**	**UPN**
ABC	100%	95%	127%	88%	27%	29%
CBS	105%	100%	133%	92%	28%	30%
NBC	79%	75%	100%	69%	21%	23%
Fox	114%	109%	145%	100%	30%	33%
WB	375%	358%	477%	329%	100%	108%
UPN	347%	331%	441%	305%	92%	100%

Source: Nielsen Media Research; Westinghouse; Bear Stearns & Co., Inc.

We believe that Fox, WB, and UPN have been able to attract a disproportionate share of the desirable 18-34 and 25-54 age groups, and advertisers will pay for this efficiency. Exhibit 32 shows the proportionate mix of demographics for each of the major networks through the middle of the 1997-98 broadcast season.

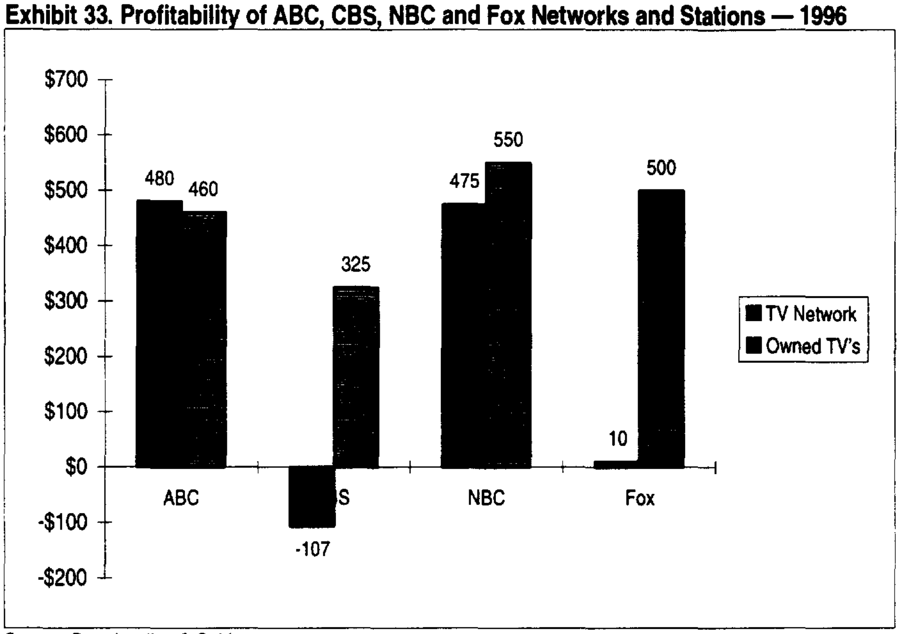
Exhibit 32. Proportion of Broadcast Ratings — ABC, CBS, NBC, Fox, WB, and UPN



Source: Nielsen Media Research; Fox Broadcasting, Inc.; Westinghouse; Bear, Stearns & Co. Inc.

To understand the impact of reaching younger audiences, we compared the various networks' profitability over the past three annual reporting periods. This analysis clearly showed that NBC's ability to consistently deliver attractive demographics (especially in bulk) has helped it generate higher profitability at both its network and its owned and operated television group.

Exhibit 33. Profitability of ABC, CBS, NBC and Fox Networks and Stations — 1996



Source: *Broadcasting & Cable.*

Control Factor No. 3: Diversity

It is also strategically vital, in our opinion, that a television broadcaster maintain diversity in terms of affiliation, geographic coverage, and sources of cash flow throughout its station group. We think a station group that is overly dependent on a certain broadcast network, geographic market, or property is more sensitive to changes in the economic and business cycle, which can also translate into greater volatility in cash flow results and lower stock price multiples.

Affiliation Balance Hedges Against Network Ratings Vicissitudes

As shown in Exhibit 34, no one broadcast network has been dominant over the past 20 years (although NBC has ranked No. 1 in six of the past ten years). The ebb and flow of ratings reflect the rise and fall of particular programs, or — as in the case of "M*A*S*H," "The Cosby Show," "Cheers," and "Seinfeld" — the cancellation of a show by its cast despite huge popularity.

Exhibit 34. Nielsen Total Television Households Ratings Summary

Broadcast Season - September to April	ABC Ratings	CBS Ratings	NBC Ratings	Fox Ratings	ABC	CBS	NBC	Fox
1978-79	21.0	18.6	17.1	0.0	1	2	3	NA
1979-80	19.5	19.6	17.4	0.0	2	1	3	NA
1980-81	18.2	19.8	16.6	0.0	2	1	3	NA
1981-82	18.1	19.0	15.2	0.0	2	1	3	NA
1982-83	17.7	18.2	15.1	0.0	2	1	3	NA
1983-84	17.2	18.0	14.9	0.0	2	1	3	NA
1984-85	15.4	16.9	16.2	0.0	3	1	2	NA
1985-86	14.9	16.7	17.5	0.0	3	2	1	NA
1986-87	14.1	15.8	17.8	0.0	3	2	1	NA
1987-88(1)	13.7	13.4	16.0	3.9	2	3	1	4
1988-89(1)	12.9	12.5	15.9	5.6	2	3	1	4
1989-90(1)	12.9	12.2	14.6	6.3	2	3	1	4
1990-91	12.5	12.3	12.7	6.4	2	3	1	4
1991-92(2)	12.2	13.8	12.3	8.0	3	1	2	4
1992-93	12.4	13.3	11.0	7.7	2	1	3	4
1993-94	12.4	14.0	11.0	7.2	2	1	3	4
1994-95	12.0	11.1	11.5	7.7	1	3	2	4
1995-96(3)	10.6	9.6	11.7	7.3	2	3	1	4
1996-97(4)	9.2	9.6	10.5	7.7	3	2	1	4
1997-98 (5)	8.6	9.9	10.2	7.1	3	2	1	4

Notes:

(1) Ratings for Fox are from Fox Broadcasting, Inc. for the seasons ending 1988 to 1990; Nielsen began breaking out Fox ratings beginning in 1990-91 season.

(2) In 1992, Total Number of U.S. Households was adjusted downward slightly due to census results.

(3) 1995-96 season was extended until May 22, 1996.

(4) 1996-97 Broadcast Season is through May 25, 1997.

(5) 1997-98 Broadcast Season to Date April 5, 1998.

Source: Nielsen Media Research; Fox Broadcasting, Inc.; Westinghouse; Bear, Stearns & Co. Inc.

A broadcast network's performance can have a meaningful impact on a local affiliated television station in three major ways, described below.

- **The Power of Prime Time.** Prime time delivers a disproportionate amount of revenue to a local affiliated station relative to the percentage of total advertising minutes dedicated to prime-time programming. We believe that while prime time represents approximately 8% to 10% of a station's advertising inventory, it can account for 20%-25% of a station's revenue. This disproportionate amount of revenue versus inventory reflects the power of the prime-time rate card that local stations enjoy. A successful prime time can have a significant influence on the local station's business economics, especially in light of the fact that these shows have no costs associated with them at the local affiliate level. In fact, prime time pays twice. First, the local stations are compensated for advertising time, and second, they receive network compensation to clear the prime-time schedule for the networks. Margins on prime-time shows are very high because local stations do not pay for the shows.

- **Lead-In Programming Contributes to Late-Night News Flow.** The networks' prime-time programming provides a lead-in to the local stations' late news (11:00-11:30 p.m. EST, for example). The relative strength of the network can have a meaningful impact on the size of the audience and the success of local late-night news programs. This is important because late-night news tends to be one of the most profitable programs for local stations because audiences are bigger and more viewers are tuned to broadcast television (cable viewership tends to ebb during the late night). To test this hypothesis, we analyzed share data in the top 50 markets for the November 1997 ratings period and then compared the ratings of the late-night news programs to those of the early-news time period (5:00 p.m.-6:00 p.m. EST). In general, late-night news ratings are higher than those of early news because of the aforementioned factors. However, as Exhibit 35 illustrates, the impact of NBC's strength in prime time has translated into increased viewership for its affiliate base in the top 50 markets. For example, the average NBC affiliate in these markets showed a late-night news share that was nearly six percentage points higher for the late-night news than for the early-evening news. ABC and CBS affiliates' shares were only two share points higher, on average.

Exhibit 35. Power of Prime Time — Difference Between Late-News Share and Early-News Share

Market Rank	Market	Late News Minus Early News ABC	Late News Minus Early Fringe CBS	Late News Minus Early Fringe NBC
1	New York	(4.7)	2.7	6.7
2	Los Angeles	0.3	6.3	9.3
3	Chicago	1.3	3.7	10.3
4	Philadelphia	0.3	2.0	10.7
5	San Francisco-Oakland-San Jose	(1.7)	2.7	8.3
6	Boston	6.0	4.0	3.7
7	Washington, D.C.	0.3	0.7	7.7
8	Dallas-Ft. Worth	3.3	2.7	6.0
9	Detroit	4.7	0.3	4.7
10	Atlanta	(0.7)	1.7	2.3
11	Houston	5.0	(2.3)	2.7
12	Seattle-Tacoma	2.7	(2.3)	7.7
13	Cleveland	5.0	3.3	8.3
14	Minneapolis - St. Paul	5.3	(2.0)	10.7
15	Tampa-St Petersburg-Sarasota	2.7	(4.3)	3.3
16	Miami - Ft. Lauderdale	(2.3)	3.7	5.7
17	Phoenix	1.3	7.0	7.0
18	Denver	(3.0)	6.7	15.0
19	Pittsburgh	8.0	4.7	0.0
20	Sacramento-Stockton-Modesto	5.0	1.0	9.0
21	St. Louis	0.3	4.0	(2.0)
22	Orlando-Daytona Beach-Melbourne	(2.0)	4.7	3.0
23	Baltimore	(1.3)	1.0	7.0
24	Portland, OR	(0.7)	5.0	9.0
25	Indianapolis	2.3	(1.7)	6.0
26	San Diego	2.3	2.3	6.7
27	Hartford-New Haven	(1.0)	(0.3)	7.3
28	Charlotte	4.7	4.0	(2.0)
29	Raleigh-Durham	1.7	5.7	1.0
30	Cincinnati	0.7	7.3	6.0
31	Kansas City	8.7	(2.7)	0.7
32	Milwaukee	6.0	0.7	3.7
33	Nashville	2.0	7.0	1.7
34	Columbus, OH	6.0	(2.3)	7.7
35	Greenville-Spartanburg-Asheville	(4.0)	5.3	5.0
36	Salt Lake City	(0.7)	2.7	16.3
37	Grand Rapids-Kalamazoo-Battle Creek	7.3	(6.0)	8.7
38	San Antonio	5.7	10.3	1.7
39	Norfolk-Portsmouth-Newport News	(5.7)	2.3	11.7
40	Buffalo	1.7	7.7	4.7
41	New Orleans	(0.3)	(1.7)	4.7
42	Memphis	1.7	2.3	1.0
43	West Palm Beach-Ft. Pierce	3.0	0.0	0.0
44	Oklahoma City	(3.0)	10.3	5.3
45	Harrisburg-Lancaster-Lebanon-York	9.7	(8.7)	11.0
46	Greensboro-High Point-Winston Salem	(1.3)	(1.3)	9.0
47	Wilkes Barre-Scranton	11.7	(0.3)	(2.3)
48	Albuquerque-Santa Fe	9.3	(6.3)	8.7
49	Providence-New Bedford	(4.3)	(2.0)	13.0
50	Louisville	11.3	(4.7)	4.0
	Cumulative Totals	110.7	86.7	297
	Average Increase Per Station	**2.2**	**1.7**	**5.9**

Source: BIA Investing in Television '97; Bear Stearns & Co. Inc.

- **Shifts in High-Profile Programming.** High-profile programming sometimes moves between networks. The most obvious example is NFL programming. During the season that began in 1994, Fox outbid CBS for the NFL National

Football Conference rights, and, for the 1998 season, CBS, in turn, outbid NBC for the NFL American Football Conference rights. The loss of the NFL/AFC rights will hurt the NBC affiliates in AFC markets and help the CBS affiliates in these markets. In non-AFC markets, the loss/gain of the AFC rights should have less impact on the local CBS/NBC affiliate. Exhibit 36 reviews the NFL/AFC markets and the likely winners (CBS affiliates) and losers (NBC affiliates) in each. Obviously, the biggest gainer will be CBS, which will add seven AFC markets, and the biggest loser is NBC, which will lose football in four AFC markets.

Exhibit 36. Affiliate Switches in NFL/AFC Cities

AFC Team	AFC City	Current Market Affiliate CBS Owner	Former Market Affiliate NBC Owner
East			
New England Patriots	Boston	CBS Corp.	Sunbeam Television
Miami Dolphins	Miami	CBS Corp.	General Electric (NBC)
New York Jets	New York	CBS Corp.	General Electric (NBC)
Buffalo Bills	Buffalo	LIN Television	Gannett Co. Inc.
Indianapolis Colts	Indianapolis	LIN Television	Dispatch Bcst Group
Central			
Pittsburgh Steelers	Pittsburgh	CBS Corp.	Cox Communications
Jacksonville Jaguars	Jacksonville	Post-Newsweek Stations	Gannett Co. Inc.
Tennessee Oilers	Nashville	Landmark Comm.	Meredith Corp.
Baltimore Ravens	Baltimore	CBS Corp.	Hearst-Argyle
Cincinnati Bengals	Cincinnati	Jacor Comm	Hearst-Argyle
West			
Kansas City Chiefs	Kansas City	Meredith Corp.	Scripps Howard
Denver Broncos	Denver	CBS Corp.	Gannett Co. Inc.
Seattle Seahawks	Seattle	Paramount Stations	Belo Corp.
Oakland Raiders	San Francisco	CBS Corp.	Chronicle Publishing
	Los Angeles	CBS Corp.	General Electric (NBC)
San Diego Chargers	San Diego	Midwest Television	General Electric (NBC)

Source: Bear, Stearns and Co. Inc.

Ultimately, we believe that it is advantageous for broadcast owners to strive for a balanced affiliation mix with the various networks, as such diversification can serve as a natural hedge against ratings and programming changes at the network level (particularly as it applies to prime-time and late-night news time slots). For example, we believe that A.H. Belo Corp.'s affiliate base is extremely well balanced, which should make the performance of its station group more stable. Exhibit 37 summarizes the network affiliation mix of the largest 25 broadcast groups.